S. HRG. 98-1191

STATE OF THE U.S. FOOTWEAR INDUSTRY

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

MAY 25, 1984

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

38-410 O WASHINGTON : 1984

S 261.37

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STATE OF U.S. FOOTWEAR INDUSTRY

FRIDAY, MAY 25, 1984

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The committee met, pursuant to notice, at 10:03 a.m., in room SD-215, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

Present: Senators Danforth, Mitchell, and Heinz.

[The press release announcing the hearing and the prepared statements of Senators Heinz, Mitchell, and Moynihan follow:]

[Press Release No. 84-141, May 15, 1984]

SUBCOMMITTEE ON INTERNATIONAL TRADE ANNOUNCES HEARING ON THE STATE OF THE U.S. FOOTWEAR INDUSTRY

Senator John C. Danforth (R., Mo.), Chairman of the Subcommittee on International Trade of the Committee on Finance, announced today that the Subcommittee will conduct a hearing on Friday, May 25, 1984, on the state of the footwear industry.

The hearing will commence at 10:00 a.m. in Room SD-215 of the Dirksen Senate Office Building.

In announcing the hearing, Chairman Danforth noted that the footwear industry is one of several that have filed petitions under section 201 of the 1974 Trade Act seeking relief from imports. The hearing should afford an opportunity to examine future prospects for the U.S. footwear industry and its role in a market increasingly characterized by imports from low-wage countries. Chairman Danforth expressed the desire to develop a long-term view of how labor-intensive industries such as the U.S. footwear industry can most effectively compete with low-wage foreign producers.

STATEMENT OF SENATOR JOHN HEINZ

I am pleased to have the opportunity to express my support for the American footwear industry's section 201 petition. In many respects this case represents something of a watershed for American trade policy because the mutual survival of an industry is at stake. Import penetration of 70 percent is not a marginal quantity. We have already lost much of our industry without even asking ourselves if we want to keep it. Failure to act now will likely cause us to lose the rest of it. It is clear from the past eight years that the problems faced by American footwear producers are serious and will not simply go away. Indeed, the situation has reached a state of crisis.

The case for import relief today is even stronger now than it was when it was first considered in the mid-1970's. In 1975, when imports claimed 41% of the U.S. market, the footwear industry petitioned the government for relief and twice received a positive response from the International Trade Commission. In the second of those cases the Administration negotiated Orderly Marketing Agreements with Korea and Taiwan, an action much more limited than that recommended by the Commission.

Nevertheless, by the time that these Orderly Marketing Agreements expired in 1981, imports had leveled off and domestic shoe producers had been able to make significant efforts towards modernizing and upgrading their operations. Spending on research and development would be double that of 1978 by 1982; annual capital expenditures would increase from $34.8 million to $57.4 million during the same period. The industry believed, however, that additional time was needed to restructure operations and realize needed improvements. The International Trade Commission agreed and recommended renewal of the 1977 OMAs for two more years. Despite these suggestions, the Administration did not act even though foreign producers then claimed over 51% of the American footwear market.

As a result, imports have surged and American nonrubber footwear producers have been devastated. From mid-1981 to the end of 1983, imports into the U.S. market increased by 54%. Domestic production declined by almost 13%, eliminating over 27,000 jobs. Over fifty factories were forced to close down—twenty-four in 1983 alone. If action is not taken quickly, the American nonrubber footwear industry, which employs about 133,000 people in direct manufacturing and 90,000 in supplier industries, is likely to disappear altogether. It is obvious that immediate relief is desperately needed. As of March, 1984, imports claimed a record 70% of U.S. shoes sales and an additional sixteen factories were forced to close since the first of the year.

This is not to say that every U.S. producer is failing. Of approximately 300 shoe manufactures in the United States, the fifteen largest companies account for more than one-half of all nonrubber footwear production. These companies are large and diversified and are not suffering the terrific losses experienced by the bulk of the manufacturers. The key to the relative success of these firms, however, is their ability to offset losses occurring in shoe manufacturing operations with profits made in retailing. In some cases, a large mark-up on inexpensive foreign shoes sold by these firms subsidizes their domestic shoe manufacturing operations. It is important to remember, therefore, that losses in shoe manufacturing are occurring across-the-board.

In closing, I would like to stress once again that action is needed now before it is too late. A five year quota on foreign shoe imports would give the footwear manufacturing industry time to complete the restructuring, so desperately needed for both international competitiveness and domestic adjustment which began in 1977. Import relief would allow the industry to effect changes which would make future relief measures unnecessary. As you know, I have proposed legislation (S. 849) to create a framework for an adjustment process on an industry-by-industry basis as each seeks relief. I am confident that ultimately something like this proposal will be enacted. In the interim, however, it remains the Commission's responsibility to begin the adjustment process through its consideration of injury. In this case, as in the previous footwear cases, injury is immediate and obvious. I trust the Commission will fulfill its responsibility, as it has in the past, and I hope the President will enable the adjustment process to work by confirming your recommendation. If the President does not act, thereby permitting current trends in the industry to continue, the death knell for the American footwear industry will surely have sounded.

STATEMENT BY SENATOR GEORGE J. MITCHELL

Mr. Chairman, thank you for scheduling a hearing on the status of the U.S. footwear industry. This hearing is very timely, as the International Trade Commission will decide in 10 days, on June 4th, whether or not imports have seriously injured the domestic nonrubber footwear industry. I hope the testimony we will hear today will highlight the need for the temporary import relief sought by the industry in its section 201 petition.

The shoe industry is one of the most important parts of Maine's economy.

In 1983 over 16,000 workers in 60 plants earned over $170 million. More shoes are made in Maine than in any other State.

Today the American shoe industry is facing disaster. Thousands of jobs have been lost. Thousands of others are at stake.

The imports' share of the footwear market is now 70 percent, far higher than the 41 percent market share that triggered the Commission's first recommendation for relief eight years ago. And it is dramatically higher than the 49 percent market share that existed just three years ago, before the Orderly Marketing Agreements were abruptly terminated in 1981.

Last year, 588 million pairs of shoes entered the American market. The number of imports has more than doubled in eight years; but the most dramatic increase has been registered in the last three years.

Since 1981, imports have not merely recaptured their previous market share, they have massively expanded it. In 1982, a year after relief was terminated, imports rose almost 28% over 1981 levels. In 1983, they climbed a further 21 percent.

From June 1981 to October 1983, footwear employment fell 11 percent. Thirty-one thousand industry jobs have been lost in eight years; but 16,700 of those jobs were lost in just the fifteen months from June 1981 to October 1983. The jobless rate in the industry is 18.7 percent, more than double the national jobless rate.

Maine is the nation's leading footwear producing state, and there the impact of factory closings is particularly dramatic, because it often affects small, rural communities which cannot readily absorb the released workforce.

Although the Commission has recommended relief three times in the past, only once, in 1977, has a President seen fit to accept that recommendation and act on it.

The industry's efforts then to regain a competitive edge were undermined by initially poor enforcement, and by the fact that the exports of only two nations were directly limited, although 68 other countries have also targeted our footwear markets. When enforcement was improved in 1979, the industry's retooling and marketing strategies began to show results. But all relief was abandoned in 1981, and what should have been a four-year breathing space was actually reduced by half.

Since then, a renewed flood of imports, running 54% above 1981 levels, has simply overwhelmed the industry's efforts to invest, retool and reach out for new markets. Unless import relief is temporarily restored, we run a very real risk of seeing the total determination of our domestic footwear industry.

Not only did President Reagan refuse to continue import relief when he had the chance, but in 1982 when the industry asked him to at least treat other nations the way they treat us, he refused.

The Commerce Department publishes a book outlining the restrictions other nations place on footwear imports. Fifty-one nations place major roadblocks in the way of footwear imports. Those barriers not only keep out the products of Taiwan or Brazil—they also keep out the products of American factories.

Ironically enough, some of the most protectionist are major footwear exporters.

Brazil, for instance, whose sales to the American market have surged by 60% in the last year, imposes a duty of 170 percent on all imported footwear and bars American footwear entirely. Taiwan and Korean virtually embargo all American made footwear.

But despite the clear evidence that free trade is the exception, not the rule, the Administration refused to take the action needed to open other markets so our producers would have a chance to compete.

The President says that people who want to use our trade laws to enforce fair trade "believe we should run up the flag in defense of our markets, embrace protectionism and insulate ourselves from world competition."

If President Reagan doesn't know the difference between protecting our markets against unfair trade and "embracing protectionism" he should try to get a shoe importing license from the Japanese. He won't be able to, because they limit imports to one million pair a year.

Our market is more open and more accessible than virtually any in the world. There is nothing "insulated" about it. If President Reagan doesn't know that, he should try selling shoes to Taiwan. He won't be able to do that either.

We do not fear free trade if it is fair trade. What we fear—and with justice—is that our efforts to be competitive will be sacrificed to a free-trade trade ideal that doesn't exist in the real world.

STATEMENT BY SENATOR DANIEL PATRICK MOYNIHAN

Mr. Chairman, I wish to commend you for scheduling these hearings on the state of the domestic footwear industry.

I need not elaborate to the members of this Subcommittee and the distinguished witnesses before us today that the United States has a significant trade problem. The merchandise trade deficit increases monthly, no—weekly. Last year, the U.S. registered our largest merchandise trade deficit in history, a staggering $60 billion. And it will get worse before it gets better.

The President's own Council of Economic Advisors has estimated that the merchandise trade deficit may reach as high as $110 billion for the calendar year 1984.

The causes of the trade deficit are as complex as they are varied. Chief amongst them, in my view, is the high and considerably overvalued American dollar. Again, according to the Council of Economic Advisors, between December 1980 and December 1983, the dollar appreciated some 52 percent against a basket of other Western currencies. After adjusting for inflation, the dollar's real rise was 45 percent.

Mr. Chairman, it is clear to this Senator that both our import-sensitive industries, such as the footwear industry, and our export industries simply cannot compete as well as they ought to with the dollar so overvalued.

The industry we examine today, the domestic footwear industry, is a prime example of an American industry that has been hard hit by the recent massive influx of foreign imports.

In 1968, only 21.5 percent of all shoes sold in this country were foreign-made. Today, imports account for over 60 percent of the domestic market.

In the face of increasing foreign imports, domestic production and employment have declined steadily. In 1968, domestic producers made 642.4 million pair of shoes. By 1982, production declined to a mere 342.4 million pair. And employment in the industry has declined from 230,000 workers in 1968 to only 130,000 today.

Mr. Chairman, we simply cannot stand by idly as our footwear and other import-sensitive industries decline. The Congress can, and indeed must, do more to help. These hearings are but the first step.

Thank you.

Senator DANFORTH. This is a hearing on the state of the U.S. footwear industry. Senator Mitchell, I believe, has a statement.

Senator MITCHELL. Thank you very much, Senator Danforth.

First I would ask that a statement by Senator Moynihan be placed in the record. And I also ask that the full text of my statement be inserted in the record, although in the interest of time and hearing from the other witnesses, I will read only a portion of the statement.

This is a very timely hearing, as the International Trade Commission will decide in the next few weeks, on or about June 4, whether or not imports have seriously injured the domestic non-rubber footwear industry. I hope the testimony we will hear today will highlight the need for temporary import relief sought by the industry in its section 201 petition. And I know that my colleague, Senator Cohen, will discuss that aspect of the matter today, as he has often previously.

The shoe industry is one of the most important parts of Maine's economy. In 1983, over 16,000 persons worked in 60 plants, and they earned over $170 million. More shoes are made in Maine than in any other State.

Today, the shoe industry in Maine and all across America is facing a real disaster. Many thousands of jobs have been lost, many thousands of others are at stake.

The import share of the footwear market is now 70 percent, far higher than the 41-percent market share that triggered the ITC's first recommendation for relief 8 years ago. And it is dramatically higher than the 49-percent market share that existed just 3 years ago before the orderly marketing agreements were abruptly terminated in 1981.

Last year 588 million pairs of shoes entered the American market from outside this country. The number of imports has more than doubled in 8 years; the most dramatic increase has been registered in the last 3 years.

Since 1981, imports have not merely recaptured their previous market share. They have massively expanded it. In 1982, 1 year after relief was terminated, imports rose almost 28 percent over

the 1981 level. In 1983, they climbed a further 21 percent. From June 1981 until October 1983, footwear employment fell by 11 percent; 31,000 shoe industry jobs have been lost in 8 years, 16,700 of them in just the 15 months from June 1981 to October 1983.

The jobless rate in the industry is 18.7 percent, more than double the national unemployment rate.

These are but a few of the many statistics which dramatically illustrate the serious, indeed near disastrous, plight of the American footwear industry.

As I said earlier, Maine is the Nation's leading footwear producing State. And there the impact of factory closings is particularly dramatic because it often affects small, rural communities which simply cannot absorb the released work force.

Although the Commission has recommended relief three times in the past, only once, in 1977, has the President seen fit to accept that recommendation and act on it. The industry's efforts, then, to regain a competitive edge were undermined by initially poor enforcement and by the fact that the exports of only two nations were directly limited, although 68 other countries have also targeted our footwear market.

When enforcement was improved in 1979, the industry's retooling and marketing strategy began to show results, but all relief was abandoned in 1981 and what should have been a 4-year breathing space was actually reduced by half.

Since then, a renewed flood of imports—now running 54 percent above the 1981 level—has simply overwhelmed the industry's efforts to invest, retool, and reach out for new markets.

Unless import relief is temporarily restored, we run a very real risk of seeing the total destruction of the domestic footwear industry. Unfortunately, the President not only terminated the import relief program in 1981, but in 1982 when the industry filed a separate petition asking that we treat other nations the way they treat us—the administration has virtually rejected that petition. And I hope to deal with that in some detail in questions for the administration's spokesman here today.

The Commerce Department publishes a book outlining the restrictions other nations place on footwear imports; 51 countries place major roadblocks in the way of footwear imports. Those barriers do not only keep out of other countries the products of Taiwan, or Korea, or Brazil, they keep out the products of American factories as well.

And, ironically, some of the most protectionist are themselves major footwear exporters. Brazil, for instance, whose sales to the American market have surged by 60 percent in the last year, imposes a duty of 170 percent on all imported footwear, and virtually bars American footwear.

Taiwan and Korea also virtually embargo all American-made footwear. Despite the clear evidence that free trade is the exception, not the rule, in this industry, the administration has refused to take the action necessary to open other markets so our producers would have a chance to compete.

Our market is more open, more accessible than any other in the world. There is nothing insulated or isolated about it. We do not fear free trade if it is fair trade. But we fear—what American

footworkers fear, and with justice—is that our efforts to be competitive will be sacrificed to a free-trade ideal that simply does not exist in the real world.

I thank you, Mr. Chairman. And as I said, I ask that the full text of my statement be inserted in the record. And I look forward with you in hearing from Senator Cohen and the other witnesses.

Senator DANFORTH. Thank you, Senator Mitchell. The full statements of all the witnesses will be automatically inserted in the record as though given. So no one need ask for permission. It will be done anyway.

We are delighted to have Senator Cohen here today. Senator Cohen and Senator Mitchell have both been very active in this area for quite a while, and have really been leaders in trying to see what can be done for the U.S. footwear industry.

Senator Cohen.

STATEMENT OF HON. WILLIAM S. COHEN, U.S. SENATOR FROM THE STATE OF MAINE

Senator COHEN. Thank you, Mr. Chairman. I was told by staff that we should try and keep our comments to 3 minutes, which I assume would be a Herculean task for any Senator to do. I will submit my prepared statement for the record.

In view of Senator Mitchell having said everything that I was prepared to say, I think he has made my job much easier. I will submit my statement for the record, and perhaps just offer a few observations.

I want to commend you first of all, Mr. Chairman, not only for holding these hearings but for testifying before the International Trade Commission 1 week or so ago. I think that your very strong support for equity and reciprocity has been a very important factor in our effort to provide relief to the domestic footwear industry.

I can recall, as a matter of fact, that back in 1981 you were one of the leading advocates of providing relief for footwear recommended by the ITC at that time. You, and I, Senator Heinz, and others went down, as I recall, to the White House to make a very strong, persuasive case for relief for the industry.

What we were saying at that time was that we knew what was going to take place if relief, as recommended by the ITC, was not granted.

As Senator Mitchell has laid out statistically, that, in fact, has occurred. The administration turned its back, an indifferent ear, to our situation. Consequently, we have seen a loss of some 17,000 jobs during that period of time, 2,000 in the State of Maine, another 700 this year in the State of Maine. The list goes on and on and on.

I think if we had to summarize the state of the condition of the footwear industry in this country on a gravestone there would be six words inscribed on that stone. It would say; "I told you I was sick."

Nobody seems to be listening to that particular message. Instead, the administration has envoked an ideology of free trade. It is proving to be a false god that we are bowing down to in view of the fact that there is no reciprocity on the part of other nations with which we do business.

I won't take much of the time other than to point out some of the countries. For example, Senator Mitchell mentioned Brazil. There are others. Canada just recently reaffirmed its quota system. We have a small company in Maine—and Senator Mitchell is familiar with it—called Acorn Products. I have mentioned it several times before because it is such a classic case of David fighting Goliath.

This is a small firm. I think they have 30 to 33 workers. They make a slipper sock called the Acorn slipper sock—which our astronauts are privileged to wear in space, I might add.

These slipper socks have been barred in Japan because they don't meet their quota. Recently, Mr. Quinn, the president of Acorn Products, tried to market these slipper socks in Australia. I have a letter that I would like to submit for the record to show you the kind of frustration this company has had to endure.

[The letter submitted by Senator Cohen follows:]

Nordic Tradeps Pty Ltd

Incorporated in the A.C.T.

Telephone: 592 7047
Private: 592 3473
Telex: AA30696 SKIING

P.O.Box 157
SOUTH YARRA, VIC. 3141

[illegible] April, 1986

David Quinn,
Acorn Products Co. Inc.,
P. O. Box 1257
LEWISTON MAINE U.S.A.
04210

Dear David,

Just a short note to let you know my progress to date with the slipper socks.

[illegible] attract 14% duty and a penalty duty of $15.00 a pair, with out a quota.

With a quota (which are impossible to get due to the Australian footwear industry being protected) the duty is simply 20%.

I am presently negotiating with my customs agent to borrow a shoe quota from an existing holder for approximately 3000 - 5000 pairs. We have been quoted prices of between $4-$7 per pair, depending on timing.

It is illegal to buy a footwear quota from an existing holder so that is why we are not pursuing that avenue. The government is not issueing an more quotas and in fact is trying to reduce the amount being issued under the quota system.

I enjoyed meeting you at ISPO nad hope it was asuccess for you and your company. I will be in touch with further developments and hope I will not experience any further delays in my marketing program.

Yours faithfully,

Pierre Revelle-Thomas

Pierre Revelle-Thomas

Senator COHEN. Australia has classified this slipper sock as a shoe. Therefore, it now comes under its quota system. In the letter from this trader, which Mr. Quinn does business with, it says:

I have ascertained from the Australian Customs Office that the slippers are now classified as shoes, and, thus, attract a 40 percent duty, and a penalty duty of $15 a pair without a quota.

Now with a quota, which is impossible to get due to Australian footwear industry being protected, the duty is simply 40 percent. If I may add just 40 more seconds, Mr. Chairman.

Senator DANFORTH. Certainly.

Senator COHEN. The retail price for this slipper in this country is $19.95. Shipping it to Australia with a 40-percent duty or a 15-percent penalty on top renders this totally unsalable. This small firm could also have a potential market in other countries. Last year, for example, a Japanese firm ordered 30,000 pairs. Japan said that this would exceed its quota. Bill Brock tried to intervene and persuade the Japanese Government to relent. There was some progress made, however, 5 months went by and the order was canceled.

So, when it comes to trade reciprocity—and I know this is something that you are terribly concerned about, Mr. Chairman—there isn't any. Senator Mitchell has said we are the only country that has totally unlimited, open, unguarded, unprotected orders when it comes to our domestic industry, especially the shoe industry.

I think that not only do we have to ask Japan, as Bill Brock did recently, about what it is doing about U.S. beef coming into Japan, but we also have to ask; "Where is the reciprocity?" Where is the fairness? When are we going to start treating our people as equitably as we treat everybody else? It seems to me, Mr. Chairman, that the first step, of course, has to be the ITC's recommendation. I would assume that there is no option other than the ITC finding that injury is being done to this valuable industry. Then, the case will have to be taken to this administration and to President Reagan, who will have to listen to the 34 voices in the Senate and the nearly 100 Members in the House who are members of the footwear caucus say that we demand relief for this industry so it can compete in the future.

Thank you very much.

Senator DANFORTH. Thank you.

[The prepared statement of Senator Cohen follows:]

PREPARED STATEMENT OF SENATOR WILLIAM S. COHEN

Mr. Chairman and members of the Committee, as Chairman of the Senate Footwear Caucus, I am pleased to appear before you today in behalf of the domestic footwear industry. Senator Danforth, I appreciate your strong commitment and support for the industry and especially for your appearing before the International Trade Commission during the recent hearings.

As Chairman of the Footwear Caucus, I have been exposed to the serious problem facing domestic shoe manufacturers, and their suppliers, across the country. The situation is serious and will certainly deteriorate further if the International Trade Commission and ultimately the President, do not offer the industry some form of relief. If relief is not granted, I fear that we will witness in the next decade, the ultimate elimination of this once-strong U.S. industry.

Since the expiration of the Orderly Marketing Agreements in 1981, foreign penetration of our domestic footwear market has expanded from 51 to 70 percent levels. As a result of this unrelenting surge in imports, the number of domestic footwear

workers dropped 11 percent between June 1981 and November 1983. A total of 16,700 manufacturing workers lost their jobs during this period, many in my home state of Maine. The trend continues. In the State of Maine alone, nearly 2,000 footwear manufacturing jobs have been lost since 1981 and the termination of the OMAs. Nearly 11,000 jobs have been lost since 1968, when imports began their upward march. Already this year, 700 more Maine jobs have been lost to imports.

As you know, Mr. Chairman, footwear production is the largest manufacturing industry in Maine, directly employing 16,500 workers with an additional 5,000 workers in the leather and component supply industries. This accounts for over 15 percent of Maine's manufacturing workforce, and generates a worker payroll approaching 200 million dollars annually.

While competitive U.S. companies are expected to compete head on with this onslaught from off-shore into the U.S. markets, these same companies are prohibited from benefiting from lucrative markets in other countries. The U.S. is the only major developed market which allows virtually unlimited footwear imports. Most of our major trading partners have restrictions ranging from formal global quotas to excessive tariffs and licensing arrangements. In fact, just this week Canada announced the continuation of its global quota program for an additional 18 month period. This quota places an import limit of 32.5 million pairs annually. Acorn Products Company in Lewiston, Maine (which faced quota restrictions in Japan last year) is now waiting for the quota to open in Canada, so that orders can be liquidated through Customs. Just this week, I received a letter from the President of Acorn, noting that Australia will place a 40 percent duty plus a penalty duty of $15.00 a pair, without quota. The importer is currently negotiating with Australian Customs to "borrow a quota" for 3,000 to 5,000 pairs.

Mr. Chairman, these slippers retail in this country for little more than the so-called "penalty duty" being imposed by Australia. The list of restrictions and barriers to our manufacturers goes on and on.

I believe that the industry retains the commitment and drive to compete on a fair basis with its foreign competition. The industry, however, must have some breathing room and further time to restructure. I would hope that the International Trade Commission and the President will look favorably on the industry's petition and recommend the relief this industry so desperately needs.

I would like to mention at this point that on Wednesday of this week, I engaged in a colloquy with several of my colleagues on the Senate floor concerning the problems of the footwear industry and imports. It was obvious that the economic devastation being caused by imports is widespread and is occurring across the country. Workers in Arkansas, North Carolina, New Hampshire, Wisconsin, Michigan, and West Virginia, to list a few examples, are losing their jobs at the same rate as those in Maine.

I appreciate your strong interest and commitment, Mr. Chairman and I look forward to working with you to address the problems of this important industry.

Senator DANFORTH. Senator Mitchell.

Senator MITCHELL. No questions. Thank you very much, Senator Cohen.

Senator COHEN. I will not introduce these Acorn slippers into the record. I'm taking these back.

Senator DANFORTH. Senator Cohen, could you describe some of the communities where shoe factories have been closed in Maine? Are these prosperous communities? Not so prosperous communities? Are they big cities where there are ample job opportunities or are they small communities where there are very few job opportunities?

Senator COHEN. Mr. Chairman, you are quite familiar with the State of Maine. I used to be mayor of Bangor, the third largest city in the State. It had a population of about 38,000—and that is metropolitan. Everything else is quite rural, and, I would say, mostly impoverished. Most of these factories are located in small communities where there is virtually no other source of employment.

Most of the workers are over the age of 50. Most of them happen to be women. Most of them cannot, to invoke those words of the administration, "vote with their feet" by moving to the Silicon

Valley or to some other high-tech State to retrain themselves. When they lose their jobs, they are virtually unemployable. The sad story is that in the State of Maine, most of the shoe workers are located in very small, very rural, very poor communities and depend upon this source of income as their only source.

Senator DANFORTH. Thank you.

Senator Heinz.

Senator HEINZ. Mr. Chairman, I have no questions for Senator Cohen. I would just commend him on an excellent statement. He correctly recalled how over the last 5 or 6 years you, Mr. Chairman, Senator Cohen, myself, and others have been fighting a losing battle.

I am going to submit for the record, Mr. Chairman, my testimony before the U.S. International Trade Commission dated May 2, which details the kind of injury that the footwear industry has been suffering.

There are some, I'm sorry to say, who believe that notwithstanding the clear case, the clear and convincing case, that has been made not just by Bill Cohen but by the industry itself, that the fact that those remaining firms in the industry are making some money is evidence of no injury. And the only trouble is that they said that 4 years ago. And we have seen import penetration rise from 35 or 40 percent to 70 percent. And at the risk of making something that sounds like a joke—it's not a joke—two-thirds of the time 5 years ago people were walking around half the time in imported shoes. Today, two-thirds of the time they are walking around in imported shoes all the time. Or put it another way, the imported shoe is on the other foot.

As a result we have very little left in this industry. And you are talking about people. Not just people in small towns, as is true in my home State of Pennsylvania, as it is in Maine and Missouri, but you are talking about people who do not have great skills. Two-thirds of these workers are semiskilled.

The average wage rate is just a little over $5, compared to $8 or $9 for manufacturing and $15 or $20 for auto workers or steel workers. These are people who are struggling to get by. And we wonder about why we have food stamps, why we have unemployment compensation, why we have welfare programs. And we don't like seeing people have to go on those programs. Taxpayers complain about having to pay for those programs. And here we have an opportunity to focus on getting these people entry level jobs and an opportunity to be self-supporting even at a modest level. And we just should not cast a blind eye on this.

This is not just a question of international fairness, though what Senator Cohen says is absolutely right. We don't do much in this country to look out for these people, but it is being done every place else. Maybe they know something we don't.

Thank you, Mr. Chairman.

Senator COHEN. Could I just raise one other point that I think has to be addressed, and will be addressed later?

Senator DANFORTH. Sure.

Senator COHEN. It is the issue of consumer interest. There are a number of consumer groups or even local retail operations that are in opposition to what we are seeking to do—to provide a measure

of protection for a limited time to allow the industry to get on its feet competitively.

I think that the consumer issue has to be looked at in the long term. We have gone, as Senator Heinz, Senator Mitchell, and yourself, Mr. Chairman, know, from a 51-percent to 70-percent market penetration by foreign competitors. I will submit to you that if relief is not granted within 2 to 3 years, certainly 5 at the outset, there will be no domestic footwear industry in this country. This would mean that the market would be 100-percent owned and occupied by foreign competitors.

I would like to submit to you that, if that occurs, those who are concerned about the consumer interest should look to the past to the OPEC oil situation as an example. Whenever any other monopoly is allowed to be established over our shores, prices go up. There will be nothing to offset that. You will see the same sort of international operations as OPEC has placed upon us; the burden of going from $2 or $5 to $10, to $20, to $30 a barrel. The same sort of principle will then apply to shoes.

Senator DANFORTH. Senator Cohen, thank you very much.

The next witness is Michael Hathaway, Deputy General Counsel of the U.S. Trade Representative.

STATEMENT OF C. MICHAEL HATHAWAY, DEPUTY GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. HATHAWAY. Mr. Chairman, I am pleased to be here today on behalf of the administration. I have a statement which I have submitted for the record. If you will allow me, I will summarize it and then answer any questions that the committee may have.

With me today is Christine Bliss who is formerly one of your member's staffs. She has been working on one of the cases of concern to the industry and will be available to answer additional questions as well.

Let me say at the outset that we know in the administration that the section 201 case is pending and that it would not be appropriate to make on behalf of the administration any preconceived judgment about what that case is going to produce in the ITC or what the President would do when the case comes to him.

I can give you Ambassador Brock's personal assurance that when the case does comes from the ITC, if it is an affirmative determination, that he will give it the most complete and fair review possible. He is obligated to look at many different criteria under the statute. Our door will be open to the affected industry, to Members of Congress and their staffs, to discuss the case. We will within the statutory time limit prepare and submit a recommendation to the President, which we would hope would be the most appropriate response to the International Trade Commission's recommendation that is possible. That is Ambassador Brock's policy and his personal assurance to this subcommittee. Our doors will be open to listen to you and to the industry and anybody else that is concerned about the case when, if it does, get to our office.

I would like to also, if I might, summarize a part of what was touched upon by Senator Mitchell and others, and that is the question of closed markets in other countries. We have had a case that

has been quite active in our office. It was brought under section 301. It is by no means the only thing that we are working on, on behalf of the industry in their export interest.

I should point out, though, that in terms of the number of pairs of shoes—and this is in part possibly reflected by the openness of other markets—exports are a very small percentage of domestic production. Something on the order of 2 percent of our actual production is exported. We think that it should be more than that, and we are working in the context of the GATT and dispute settlement actions that can be taken through that forum and through bilateral discussions to try to open up other markets. We have gotten progress in two of the major importers—Korea and Taiwan. Taiwan really has not been a problem. Korea has reduced duties and has done other actions that have been requested by the administration and even more to open their markets.

Japan has an illegal quota. We have successfully prosecuted a test case on their quotas on leather which we have now had the panel decision adopted last week. We are negotiating with the Japanese on the time schedule for that quota to be made in conformity with its GATT obligations. We expect no less on footwear, and we will accept no less on footwear. If the action is not forthcoming on footwear, which we have told Japanese officials we expect it to be as it will be on leather, that we will take the necessary actions. It should be very quick since the identical case has been just completed on leather.

We expect to see the same kinds of results in terms of opening the Japanese markets to U.S. footwear exports. Brazil was also mentioned. Brazil has many actions that have been taken, but they have been taken for balance-of-payments purposes for which they have an international escape.

Nonetheless, we have been working with the industry on making requests on specific kinds of products that they would like to get into the Brazilian market. Because of the difficulties that we have had with Brazil in these areas in the past, I cannot say that we expect immediate results. But we do not expect to drop the ball on it. We will continue to keep pushing for openness in those markets and others.

Another market abroad that was mentioned was Canada. They have taken an additional action on footwear. We are now preparing a list to ask for specific products of interest to U.S. exporters in the footwear sector be excluded from that action. If we do not, we have rights under the GATT and under our obligations with Canada for compensation. And we expect to pursue our rights with Canada fully and completely.

We would hope first to be able to get their actions modified so that the industry that is affected by it now will be able to continue to export their product to Canada, which in terms of our exports is an important export market for our footwear industry.

Beyond that, there are many programs and actions that have been taken by this administration and past administrations for footwear which are all summarized in my statement. I would be happy to answer anymore questions about them for the record or supply any other information.

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I know that you are anxious to hear from the domestic industry, and I don't want to extend my remarks anymore than necessary, but I would be happy to answer any questions that you may have. If I can't answer them, I will provide answers for the record.

Thank you.

Senator DANFORTH. Thank you.

[The prepared statement of Mr. Hathaway follows:]

Statement of Michael Hathaway
Deputy General Counsel
Office of the U.S. Trade Representative
Before
The Senate Finance Subcommittee
May 25, 1984

Mr. Chairman and Members of the Committee,

I appreciate the opportunity to participate in these hearings on the U.S. nonrubber footwear industry. I would like first to comment briefly on the principal issue of concern to the Committee -- the state of the U.S. industry -- then provide a brief history of trade actions that relate to nonrubber footwear, and finally focus my remarks on the efforts we have underway to improve the nonrubber footwear industry's access to foreign markets.

I must point out at the outset that because of the U.S. Trade Representative's statutory role in the Section 201 process, my comments on the state of the industry and specifically the impact of imports are necessarily limited. As you are aware, Mr. Chairman, the U.S. International Trade Commission is responsible for conducting the investigation to determine whether foreign imports are a substantial cause of serious injury or threaten serious injury to the industry. The ITC makes its determination based upon information on the industry that we do not have access to. Our role is to Chair the interagency task force that will recommend to the President what type of import relief, if any, should be granted. But this role does not begin unless and

until the ITC makes an affirmative determination on injury.

At this time, it would be premature and possibly prejudicial to make any assessment of the state of the U.S. nonrubber footwear industry. However, I would like to present for the record a summary of statistical indices on imports, consumption, production, profits, capacity utilization, and exports. This data was compiled from the official statistics of the U.S. Department of Commerce.

THE U.S. NONRUBBER FOOTWEAR INDUSTRY

The U.S. nonrubber footwear industry is comprised of approximately 300 companies, operating 547 plants engaged in the production of leather and nonleather shoes, sandals, slippers and boots for men, women, children, and infants. The industry is heterogeneous; 20 large producers account for the lion's share of production. However the bulk of the industry is composed of smaller, privately-owned companies. There are shoe manufacturing plants located in 41 states, although production is concentrated in the 12 states of Maine, Missouri, Pennsylvania, New York, Massachusetts, Tennessee, New Hampshire, Florida, Arkansas, Ohio, Texas, and New Jersey.

Rising Imports. The statistics clearly demonstrate that the U.S. nonrubber footwear industry is facing the highest level of import penetration in its history.

The absolute level of imports into the U.S. market has risen dramatically since 1981, both in terms of dollar value and quantity. In 1981, 376 million pairs were imported into the U.S. market; by 1983 that figure had reached 582 million. In terms of dollar value, foreign imports were $2.1 billion in 1981 and had risen to $3.6 billion by 1983.

Imports as a percentage of domestic consumption, when measured in terms of pairs, reached 63.6 percent in 1983 as compared to 51 percent in 1981. We understand further that based upon statistics on imports for the first three months of 1984, imports as a percentage of domestic consumption have increased to 70 percent.

There are approximately 70 countries that supply footwear to the U.S. market. While Taiwan and Korea dominate the import market, together accounting for over 60 percent of the foreign imports in 1983, other major sources of imports are Italy, Spain, and increasingly Brazil. In fact, based upon data on imports for the first three months of 1984, Brazil supplanted Italy as the third major source of imports into the U.S. market. The dollar value of imports from the major foreign suppliers and the number of pairs they export is shown in greater detail in Chart 1.

Chart 1

U.S. Imports of Nonrubber Footwear

Item	1979	1980	1981	1982	1983
	Quantity (In thousands of pair)				
Taiwan	124,865	144,032	118,906	183,202	243,430
Korea	24,388	37,054	43,993	90,606	118,854
Brazil	32,026	31,338	43,028	41,114	64,391
Italy	97,074	46,221	50,179	57,430	56,355
Spain	27,292	18,017	18,999	22,229	26,706
Hong Kong	22,133	20,762	28,312	24,536	18,186
Philippines	13,237	14,295	13,233	10,144	7,632
China	874	2,207	7,106	6,164	7,167
Thailand	2,710	3,381	5,822	6,315	5,142
France	2,831	2,767	3,661	4,232	4,254
All other	57,134	45,670	42,363	33,692	29,739
All countries	404,563	365,743	375,600	479,663	581,857
	Customs value (In thousands of dollars)				
Taiwan	463,111	620,143	613,465	805,016	1,079,368
Korea	166,610	262,849	321,999	591,002	700,189
Brazil	237,195	239,596	357,251	349,710	513,181
Italy	787,510	506,528	489,021	609,339	658,612
Spain	274,632	173,744	194,595	231,842	254,731
Hong Kong	36,927	36,076	58,858	54,634	48,690
Philippines	34,801	34,133	44,005	33,839	29,356
China	2,470	7,297	17,734	19,926	17,758
Thailand	3,658	4,169	10,373	14,022	13,438
France	48,176	49,504	58,377	76,606	74,108
All other	374,195	364,268	315,296	297,923	272,527
All countries	2,429,284	2,298,308	2,480,975	3,083,859	3,661,959

The United States imports all types of nonrubber footwear but the majority of imports, in terms of both quantity and dollar value, fall into the categories of women's and men's footwear. In 1983, of total imports of 581 million pairs, 430 million fell into these two categories. In terms of dollar value, $2.8 billion of total imports of $3.6 billion were women's and men's nonrubber footwear. Chart #2 provides additional detail on imports by category as well as on production, consumption and exports which are discussed in greater detail below.

Apparent Consumption. While imports have been rising, so too has domestic consumption of nonrubber footwear. Apparent consumption reached a high of 915.5 million pairs in 1983, relative to 1981 and 1982 figures of 736.4 million pairs and 813.1 million pairs respectively. The pattern of consumption has remained relatively stable since 1981 with women's footear constituting approximately 48 to 49 percent of consumption, men's in the range of 22 to 23 percent, athletic between 10 and 11 percent, children's between 8 to 9 percent, and "other" in the range of 7 to 10 percent.

Domestic Production. While consumption has increased dramatically, domestic production of nonrubber footwear has fallen. Between 1982 and 1983, there was a decline in production of 3.4 percent; between 1981 and 1983 production declined approximately 9 percent. Employment in the industry has followed a similar pattern.

CHART 1

Statistics on Nonrubber Footwear

(In thousands of pairs)

Type and year	Production	Imports	Exports	Apparent consumption
Men's: 1/				
1979	103,827	70,205	2,843	171,189
1980	101,981	68,627	3,921	166,687
1981	98,458	70,224	3,678	165,004
1982	81,504	105,029	2,955	183,578
1983	2/ 86,013	133,408	2,007	217,414
Women's: 3/				
1979	159,668	271,627	2,753	428,542
1980	154,222	221,334	3,830	371,726
1981	144,971	223,007	3,261	364,717
1982	140,642	252,857	2,732	390,767
1983	2/ 136,116	307,913	2,464	441,565
Children's: 4/				
1979	37,092	22,236	517	58,811
1980	38,357	22,165	470	60,052
1981	36,538	25,010	491	61,157
1982	33,986	34,577	341	68,222
1983	2/ 35,138	52,276	331	87,083
Athletic:				
1979	20,529	40,366	2,390	58,505
1980	15,038	53,571	3,979	64,630
1981	17,831	57,295	2,470	72,656
1982	16,648	86,997	2,096	101,549
1983	2/ 16,266	88,042	2,137	102,171
All other:				
1979	77,756	129	759	77,126
1980	76,713	46	798	75,961
1981	74,199	65	1,380	72,884
1982	69,600	204	765	69,039
1983	2/ 66,917	218	558	66,577
Total nonrubber footwear:				
1979	398,872	404,563	9,262	794,173
1980	386,311	365,743	12,999	739,055
1981	371,997	375,600	11,179	736,418
1982	342,380	479,663	8,890	813,153
1983	5/ 341,195	581,857	7,496	915,556

1/ Men's footwear also includes youths' and boys', but excludes athletic.
2/ The 1983 data represent preliminary totals.
3/ Women's footwear also includes misses', but excludes athletic.
4/ Children's footwear also includes infants', but excludes athletic.
5/ Because of revisions made to the total subsequent to the publication of data on the subgroups, the 1983 data will not add to the total shown.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: Because of rounding, figures may not add to the totals shown.

There has been a relatively steady decline in employment (with a few exceptions) and since 1981, employment levels have declined by 13,700 persons.

Profits/Capacity Utilization. Based upon data provided to the ITC staff by 92 U.S. nonrubber manufacturers, the ratio of net profit before taxes to net sales increased from 7.2 percent in 1980 to 7.9 percent in 1981, but declined to 7.7 percent in 1982. In 1983, the figure was 8.9 percent.

Capacity utilization has decreased since 1981 from 80.0 percent to 70.2 percent. Capacity utilization is lowest for those firms that produce less than 200,000 pairs (28.0 percent) and those producing 1 to 2 million pairs (62.2 percent). However, capacity utilization has fallen for all categories of producers, even those producing in excess of 2 million pairs annually.

Export Decline. Partly due to the strong value of the U.S. dollar, U.S. footwear exports have declined. While exports had reached approximately 13 million pairs in 1980 (dollar value of $130.7 million), in subsequent years there has been a steady decline, with exports of 7.5 million pairs in 1983 (dollar value of $102.2 million).

It is evident from the foregoing snapshot of statistics that the key issue of concern to the U.S. nonrubber footwear is increased

levels of foreign imports.

Increased imports are not, per se, bad. Imports, may in fact, promote efficiencies and give the consumer more choice at less expense. However, both U.S. domestic law and the GATT provide for temporary import protection in cases where imports seriously injure or threaten injury to a domestic industry. The ITC makes this determination based upon data far more sophisticated than we have presented. Action taken under Section 201 is consistent with the GATT and enables us to design a remedy appropriate to the injury. However, if action is taken that impairs trade concessions, affected countries can seek compensation from the United States or retaliate.

Other Trade Actions

In response to the Committee's request, I would now like to briefly address the history of import relief for the U.S. nonrubber footwear industry, to touch upon the May 1983 decision of the ITC to revoke the countervailing duty order on certain nonrubber footwear for Brazil, India, and Spain, to discuss exclusions from preferential programs and provide information on other Federal assistance that has been made available to the U.S. nonrubber footwear industry.

History of Import Relief

There is a rather lengthy history surrounding the issue of import relief for the U.S. nonrubber footwear industry. In April 1968, President Johnson requested the Tariff Commisison to conduct a comprehensive fact-finding study of the footwear industry" ...including the competitive relationship between imports and their products." The Commission's report, issued in January 1969, led to the creation of an Interagency Task Force at the direction of the President to undertake a comprehensive inquiry into economic conditions in the domestic industry, with particular reference to the effect of imports. In December 1969, the Commission, after instituting another investigation, reported that 1969 imports exceeded 180 million pairs and accounted for 22 percent of U.S. consumption, despite record U.S. production of 642 million pairs that year. At that time Italy and Japan were the predominant suppliers--Italy in leather, Japan in vinyl. Taiwan and Spain were also important suppliers, but on a far smaller scale.

On the basis of the report from the Interagency Task Force report, the President announced a program of assistance to the U.S. non-rubber footwear industry and its workers, and initiated an escape clause investigation by the Tariff Commission.

In January 1971, the Tariff Commission reported a split decision on its investigation of the industry's request for escape clause relief. The President deferred action on the case pending the outcome of discussions by Ambassador Kennedy with representatives of major supplying countries. Following these discussions, the Italian Government instituted a statistical visa system on shoe exports to the United States, by means of which it was hoped that the level of imports from Italy in 1971 would be held close to the 1970 level. Discussions were also held with Spanish officials, but no agreement was reached.

With the enactment of the Trade Act of 1974 on January 3, 1975, and in view of the interest of Congress in the footwear problem as expressed in the Act, the Office of the Special Trade Representative established a new Interagency Task Force on Footwear to review the problem in light of the recently enacted legislation and the assurances given to the Senators.

The non-rubber footwear industry, in the summer of 1975, informally requested the Administration to undertake negotiations for multilateral or bilateral voluntary restraint agreements with five foreign suppliers.

Later in 1975, the industry filed its first petition for import relief under Section 201. At that time imports represented approximately 40 percent of domestic consumption. The ITC issued

a unanimous affirmative decision: five commissioners agreed that a five year program of import relief was essential to redress injury; the sixth commissioner recommended expedited adjustment assistance. The President made the decision that expedited trade adjustment assistance was the appropriate remedy in the national economic interest. The President also ordered the Special Trade Representative to monitor footwear imports and an interagency group was established to carry out this directive.

The Senate Finance Committee requested the second investigation as to the impact of imports on the domestic economy. In 1977, the ITC recommended that import relief be granted for a five-year period through adoption of a tariff-rate quota system. The President, at that time, made the decision that, in lieu of the tariff-rate quota system, the Special Trade Representative (STR) would be directed to conclude the necessary agreements with appropriate foreign exporting countries to remedy the injury. Orderly Marketing Agreements (OMAs) were subsequently negotiated with Taiwan and Korea who in 1977 jointly supplied 61 percent of total foreign imports. The four year agreements were designed to provide for a moderate rollback in imports from the 1976 level of 370 million; imports from Taiwan and Korean were reduced by 22 percent the first year, with some allowance for growth during the period of import controls. In addition, the President directed a major new Federal trade adjustment effort to assist the domestic indlustry in becoming more competitive. The effort

is described in more detail later in the testimony.

The President also delegated authority to the STR to negotiate similar agreements with other countries. While no other OMAs were negotiated, action was taken to avoid disrupting import surges from uncontrolled countries. Following allegations that Taiwan was transshipping shoes through Hong Kong to bypass OMA limitations, the United States obtained an agreement from Hong Kong to initiate a certificate of origin program for U.S. imports from Hong Kong. In 1978 and 1979, Administration officials consulted with Hong Kong, the Philippines, Singapore and Thailand expressing concern over the rapid increases in their footwear exports to the United States. Following these consultations, the Philippines began monitoring its exports of nonrubber footwear, while Singapore prompted its Taiwanese-owned firms to terminate their footwear exports to the U.S. market. Further, in response to the "Candies" craze in 1979, the Administration considered negotiating an additional OMA with Italy, but determined that exports to the U.S. market would decline in 1980. This, in fact, did occur.

In 1980, the industry requested an extension of import relief under Section 203 of the Trade Act of 1974. Pursuant to its investigation, the ITC unanimously concluded that termination of the OMAs with Taiwan would adversely affect the U.S. nonrubber footwear industry. A 3-1 majority of the Commission further

advised that a termination of the relief with respect to all imports from Korea and athletic footwear from Taiwan would not have a significant adverse effect on on the industry. The ITC also recommended an extension of the President's residual authority under Section 203 "to provide additional relief in the event this extended relief proved ineffective." The President made the determination to allow import relief to expire as of June 30, 1981. This decision was based upon the judgment that market forces, rather than government intervention, would provide the best long-term solution to the adjustment problems of the nonrubber footwear industry. Further, industry conditions appeared to have stabilized: the decline in employment had slowed, in fact, 1980 employment figures were higher than prior year levels, and profitability had improved. Also, it was noted that the cost to consumers attendant with the OMAs with Taiwan and Korea had been borne disproportionately by low-income consumers.

On January 23, of this year, the industry in conjunction with the unions representing footwear workers, again filed for import relief under Section 201. The petitioners have requested five years of import relief in the form of global quotas. Their objective is to limit foreign imports to 50 percent of the U.S. market (when measured in terms of pairs). As I mentioned previously, the ITC is presently conducting the investigation to determine whether foreign imports are a substantial cause of serious injury or threaten serious injury to the industry. The ITC decision

is due the week of June 4.

Countervailing Duties Revoked

In May of 1983, the ITC determined that the U.S. nonrubber footwear industry would not be materially injured by imports from Brazil, Spain, and India, if the countervailing duty orders in effect were revoked. The Brazilian order had been in effect since 1979, when the ITC made the determination that Brazil granted subsidies ranging from 3.5 to 4.8 percent of the total value, in violation of U.S. trade laws. A Department of Commerce review of CVD orders on exports from Spain and India had earlier in 1983 found government subsidies of 15 and 5 percent respectively.

Exception from Preferential Programs

I would note that footwear and other leather products were excluded from the duty-free status granted to imports from Caribbean countries under the Caribbean Basin Initiative. Also, in its proposal to renew the GSP for an additional ten years (S.1718), the Administration has asked Congress to maintain the statutory exclusion for footwear.

Other Federal Assistance

Federal assistance to the U.S. nonrubber footwear industry has been primarily in the areas of trade adjustment assistance, the Footwear Industry Revilatization Program, and partial funding

of the America Shoe Center.

Trade Adjustment Assistance. From mid-1975 through the end of 1983, technical assistance amounting to about $5.7 million has been provided to the industry through consultants under direct contract to the Department of Commerce. In addition, seven footwear firms received $300,00 in technical assistance directly from EDA in 1980. Since the special footwear program expired in mid-1980, all new assistance to footwear firms is being provided by the regional Trade Adjustment Assistance Centers (TAACs).

Technical aid has gone not only to firms but to industry associations, to DOC's International Trade Administration to run an export program, and to universities in the form of grants to study technological improvements. Aid of this type has amounted to approximately $7.1 million since 1975.

Financial assistance between mid-1975 and 1981 was provided to about 55 firms for a total of approximately $70 million. The majority of assistance was provided in FY 1978 and has declined steadily since that date. This drop is due to the declining number of firms petitioning for relief, as well as the fact that most firms which are eligible for Trade Adjustment Assistance (TAA) have already been certified. Nine firms are currently active TAA clients with actual and in process assistance totalling

$150,000.

Footwear Industry Revitalization Program. In mid-1980 the Department of Commerce concluded the Footwear Industry Revitalization Program -- a $56 million, 3-year program of assistance of the import-injured segment of the industry. The program's principal features included:

- An outreach program to inform all footwear manufacturing firms injured by imports about the benefits available under the trade adjustment assistance provisions of the Trade Act of 1974 and about all aspects of the special Footwear Industry Revitalization Program.

- A streamlined trade adjustment assistance program, which included technical and management assistance from footwear specialist teams organized to help companies modernize and achieve greater operating efficiency.

- An export promotion program to assist the industry in developing its foreign trade potential.

- A domestic retailer participation program to gain the voluntary cooperation of a number of retailers which would make their styling and merchandizing experience available to manufacturers certified for trade adjustment assistance.

- A program to identify and develop new technologies which could significantly improve the competitive position of the entire industry.

- An effort to establish a footwear center which would promote industry-wide adoption of new technology, support employee and management training opportunities, and offer product/materials testing programs.

- A Research and Development Requirements Board to evaluate and recommend priorities for potential Federal support of specific technological developments that would provide competitive advantages for the domestic footwear industry.

In 1978 the Department of Commerce conducted a symposium, entitled "Manufacturing a Competitive Advantage," designed to evaluate key technologies, outline the goals of the revitalizati
on program, and elicit ideas from sources both inside and outside the industry. Commerce also provided about $2 million in start up money for the American Shoe Center, which began limited operations in late 1980. The Center is now self-supporting through dues and income from special projects; it offers technical, managerial, and information services to member companies.

Improving Access to Foreign Markets

Mr. Chairman, I would now like to turn my remarks to the actions we have underway to improve the U.S. industry's access to foreign markets by reducing barriers to trade.

On October 25, 1982, the Footwear Industries of America filed a petition for relief under Section 301 of the Trade Act alleging that restrictive trade practices by the Governments of Japan, Taiwan, Korea, Brazil, the EC, Italy, Spain, and France were diverting footwear imports to the U.S. market and denying market access to U.S. footwear exports.

On December 9, 1982, Ambassador Brock initiated a Section 301 investigation based on the allegations relating to denial of market access to U.S. footwear exports resulting from the imposition of quantitative restraints, restrictive import licensing and excessive tariffs and customs charges by Korea, Taiwan, Japan, and Brazil. The allegations with respect to the restrictive trade practices of the EC, Italy, Spain and France were not accepted because in some instances we confirmed that the practices alleged did not exist or had no relation to footwear and in other instances because there was insufficient information to support their existence.

Although Ambassador Brock rejected the petitioners' trade diversion claims without prejudice, he did agree to assist the petitioner in collecting additional information on the issue. A second petition was filed by the industry on June 29, 1983, based upon the trade diversion claims. The second petition was rejected with prejudice. The trade diversion claims were rejected because there was insufficient information to establish a causal link between the restrictive trade practices alleged and the trade diversion allegations.

I would like to provide the Committee an update of our investigation with respect to the four countries with whom GATT or bilateral proceedings are underway or have been undertaken.

Japan

The case against Japan on nonrubber footwear is based upon the same arguments that we have raised in the leather case. The Committee may be aware that on May 16 the GATT Council adopted the GATT Panel report which concluded that Japan's import restrictions on leather are inconsistent with the GATT. Japan is now obligated to liberalize its import restrictions on leather. That case, like the footwear case, was based on the institution by Japan of a global quota in violation of Article XI, refusal to reveal the import quota level in violation of Article XIII:3, and the existence of a monopoly over the distribution of import licenses in violation of Article II. We held Article XXII Con-

sultations with Japan in January of 1983 and confirmed the existence of a global quota on footwear imports. However, as in the leather case, the Japanese government refused to reveal any information about actual quota levels.

Because the identical issues had been raised in the leather case we decided to wait for the Panel decision to be issued before proceeding further with formal dispute settlement procedures in the footwear case. However, once we received a copy of the Leather Panel Report and prior to its adoption by the GATT Council, in the course of discussing the decision with the Japanese Government we requested that the Government not only take remedial action with respect to leather but also with respect to footwear. Now that the leather decision has been formally adopted we are seeking, through bilateral consultations, remedial action on both leather and footwear.

Brazil

The case against Brazil is based upon Brazil's suspension of the granting of import licenses for all footwear products in violation of Article XI, a 100 percent import surcharge, and excessive tariffs. We have not pursued the case under Article XXIII because Brazil has notified all of the import restrictions on nonrubber footwear as balance of payments measures under Article XVIII. In light of this balance of payments defense we would be very unlikely to succeed in dispute settlement.

However, in the interest of helping the industry we have not terminated the case because of the informal Brazilian offer to take some steps to liberalize restrictions on footwear imports on an MFN basis. We have forwarded a list of products provided to us by the footwear industry which the U.S. industry believes it could export. Consequently, the U.S. request on footwear is currently being considered by the Brazilian Ministry of Finance and we expect a response from the Brazilian government in the near future.

Korea

The case against Korea was initiated on allegations of restrictive licensing procedures in violation of Article XI. With the exception of footwear with leather uppers, after the Article XXII consultations, we did not find any evidence to support the existence of such restrictions. Nonetheless, we continued to press the Koreans to remove the restrictions on footwear with leather uppers. Additionally, although we did not request a reduction in the Korean tariffs on footwear because they are bound, we indicated to the Government that the high level of the tariffs made it difficult for footwear exports to be competitive in the Korean market.

I would note that Korea has made efforts to reduce tariff and nontariff barriers to footwear imports. On July 1, 1983, previously applicable import license restrictions on Korea dress leather

footwear imports were removed. Beginning July 1, 1983, all leather footwear imports, like other footwear imports, became subject to import licenses that are given automatic approval.

In December 1983, the Korean National Assembly enacted legislation providing for a reduction of tariffs on footwear. On January 1, 1984, the 50% tariff applicable to all footwear imports was reduced to 40 percent. In addition, the tariff rate will be reduced an additional five percent each year through 1988 when it will be fixed at 20 percent.

Taiwan

Bilateral consultations were held with Taiwan in January and September of 1983. These consultations revealed that nonrubber footwear imports have been exempt from import licensing requirements or have been subject to automatic approval since 1973. Additionally, we learned that Taiwan had instituted temporary tariff reductions on nonrubber footwear and that the Government was seeking legislative approval to make the tariff reductions permanent. In the course of the consultations the Government of Taiwan offered to provide marketing assistance to U.S. footwear exporters.

Based on the information received during the consultations on December 19, 1983, the President determined that there were no unreasonable or discriminatory restrictions being imposed by Taiwan on nonrubber footwear imports. However, in making this determination the President directed USTR to assist the

industry in pursuing any offers made by the Government of Taiwan to provide marketing assistance to U.S. footwear exporters. We have informed the domestic industry of the offer made by the Government of Taiwan and are prepared to provide further assistance as is necessary and appropriate.

We believe, Mr. Chairman, that considering the substantive merits of the four cases we have made considerable progress. With respect to Japan, because of our success in the leather case, we expect to achieve market liberalization with respect to nonrubber footwear without having to resort to formal dispute settlement. With respect to Korea, we have seen direct results in the area of removal of import licensing restrictions and tariff reductions, again without having to invoke formal dispute settlement. With respect to Brazil, we hope to achieve some market liberalization as a result of the progress we have made through bilateral consultations. Finally, with respect to Taiwan even though our bilateral consultations did not confirm the existence of trade restrictive practices, we are assisting the U.S. industry in pursuing the marketing assistance offered by the Government of Taiwan.

Mr. Chairman, this now ends my prepared remarks. I would be happy to answer any questions that you might have.

Senator DANFORTH. Senator Mitchell.

Senator MITCHELL. Thank you, Mr. Chairman.

Mr. Hathaway, as you know, in 1981 the ITC recommended that the relatively modest relief program then, in effect, in the form of orderly marketing agreements be extended. The President rejected that recommendation and allowed the agreement to expire.

There was at that time no formal explanation of the President's decision. Would you tell us now why it was in 1981 that the President rejected the ITC's recommendation and allowed the orderly marketing agreements to expire?

Mr. HATHAWAY. The belief within the administration at that time was that the industry would best be able to make the adjustments necessary without additional import relief. The economy then and the state of the industry, from what we now know, appears to have been a temporary situation, but profitability was up, employment was going up again in 1980. At the time the decision was made, things looked like they were getting better for the industry instead of getting worse.

The relief itself, while it was significant in some areas, had already been decreased, so while it was important with respect to Taiwan, it was not as important with respect to other suppliers. Had the relief been extended in that form, it would not in and of itself have solved all of the import problems that the industry has had since that time.

But the decision was based upon the best judgment that could be made at the time and based on conditions of the industry that have not been continued, possibly for other reasons.

Senator MITCHELL. In hindsight would you now agree that the decision was a mistake?

Mr. HATHAWAY. I don't know that it was a mistake because this industry, and it is true of other industries—I don't want to imply it's the only one—but the footwear industry has been doing a very good job of adjusting to import competition. Imports have gone up but the industry has been doing a good job of undertaking adjustments.

Senator MITCHELL. What do you mean when you say "undertaking adjustments?" Closing factories and throwing people out of work is one form of adjustment. Is that what you are referring to?

Mr. HATHAWAY. No, it isn't. In the broad sense of the term "adjustment," there is one way of adjusting and that is out of the business. But that's not what I'm talking about. What I am talking about is improving marketing, improving productivity, taking the kinds of steps that one would expect to see from open competition.

I have to say that there is much competition within the 547 firms in the United States, many of whom compete quite actively against each other. So in any kind of open economy one expects to see a substantial amount of competition and adjustment—the more efficient and better producers obtain more sales, and the less efficient obtain less.

But what has happened to the industry—your first question was in hindsight was this a mistake. I would hate to characterize this as mistake in hindsight. It may well be that as a result of the action that is available to the industry, that in the long term they will be better as a result of the decision that the President made

not to extend what relief was recommended by the ITC to extend. It wasn't all of the industry.

The decision necessarily had to be made at that time, when the industry appeared to be doing better. While there were those who differed on whether it was the right decision at that time—and honest differences will always occur in these sorts of cases—the administration made what it thought was the best decision.

There isn't anything that can be done to go back and redo the decision. We haven't done any analysis of whether we thought we were wrong before. What we are doing quite actively now is preparing ourselves in terms of the knowledge of the industry and imports, and preparing for what kinds of recommendations we might get from the International Trade Commission in this new case. And we have a very, very short timeframe to make an analysis of whatever the ITC might recommend. We are geared up to do that.

We have a large number of people that are very knowledgeable about the industry. And they are prepared within the 60 days that the President has to make a decision on what to do if he gets an ITC case. We are prepared to have a complete and thorough review of what the ITC recommends. If in our judgment it is a better decision, considering all the factors the President has to consider, to do something different than the ITC has recommended, then he has that responsibility as well. If he doesn't, then he has to explain himself to the Congress and to the public. We are prepared to do that as well.

But that is a process that we will be going forward with in the very near future. And if the confidence that Senator Cohen expressed about how the ITC case is going to come along, then we are doing the right thing in preparing for that possibility. We are prepared to analyze, as we are required to do under the statute, and to respond.

As I said before, our door will be open to the industry and anybody else that wants to provide input into what recommendation Ambassador Brock should make to the President and what action the President should take ultimately, if he gets an ITC decision.

Senator MITCHELL. I have a number of other questions, Mr. Chairman, but I will——

Senator DANFORTH. Why don't you just proceed?

Senator MITCHELL. Well, I think that I do not agree with much of what you said. Most specifically, that it is important to evaluate the correctness of the prior decision because that has some impact on the current situation. If you think that your decision in 1981 was right, then, of course, you are much more likely to make a similar decision now. On the other hand, you don't acknowledge what is obvious to everyone, I think. And I can understand you are reluctant here in public to acknowledge it may have been a mistake, but if you acknowledge it may have been a mistake then I think it is more likely that we will make the correct decision now.

And one of the things that bothers me is what at least many perceive to be the unequal treatment accorded to the footwear industry. The President rejected the ITC's recommendation in the case of the footwear industry, but he followed the ITC's advice in the specialty steel and motorcycle case.

In the case of the automobile industry, even though the ITC had a negative vote, the administration still arranged for what was in effect import relief in the so-called voluntary restraints—put a gun to someone's head and say if you don't engage in voluntary restraint, I'm going to impose involuntary restraints.

Why was relief granted in those cases but not in the footwear industry? What was it about the footwear industry that was so different that the general phrase of "free market adjustments" would be best? Why did the President follow the ITC in two cases and in the case of autos, even though they had a negative vote to pursue relief, and all three of which imports had not reached the level and have not now reached the level of the footwear industry?

Mr. HATHAWAY. I would be happy to provide you a much more detailed analysis of what the facts were as best we knew them at the time the decision was made. And if that hadn't been provided to you before, I will be happy to have that submitted to you for the record.

But as I said in the summary before, the judgment was that the situation was improving for the footwear industry. And what relief that had been recommended to be extended by the ITC was not necessary for the industry to keep on the track of adjusting.

Senator MITCHELL. Mr. Hathaway, that simply flies in the face of the facts, logic and common sense. In the period preceding the import relief program, modest as it was, there was a dramatic surge in imports. It was the existence of the import relief program itself and particularly the last 2 years when enforcement was meaningful that caused the stabilization. For you to suggest that there was a stabilization or improvement and therefore we should end the import relief program when it was the existence of that very program which caused the stabilization and improvement is simply turning logic on its head.

Mr. HATHAWAY. Well, what you are getting at really is the nature of that particular remedy, which is what has been authorized. What an escape clause does is provide a temporary period for an industry to adjust to increased import competition. And the period of time at a maximum is 8 years. And what is envisioned is that the best thing—and this is the judgment that has been made since the 1930's by the United States—to escape from our policy of not establishing quotas or additional duties on items and having competition from imports to help both our consumers and our industries to remain competitive, and to keep other countries from doing the same kind of thing, we have a temporary import relief statute. Whatever we had done in footwear has to come to an end some time. And so the question is when has there been enough help to the industry from an import relief program for the program to come to an end.

The President has the ability to ask the ITC during the course, if he had proclaimed 5 years of relief—he has the ability to ask anytime during that period for advice on whether a reduction or termination of the relief would be in the national economic interest. And that's provided in the statute under which we operate.

The question was when had the industry had enough import relief in order to be competitive on its own. Now reasonable people can differ on whether or not it was enough at that time. And I

know the industry at that time felt that it wasn't, and many others felt that it wasn't.

Senator MITCHELL. And the facts since then have made it clear.

Mr. HATHAWAY. Not necessarily. The situation either in the economy or in other areas may have changed, something that might not have been known at the time. All I am saying is that in 1980 when the decision was made, while there could be a difference of opinion about it, which I will acknowledge, and it wasn't the clearest case in the world—it wasn't something that was considered lightly within the administration, but the judgment was made then.

As I said before, employment had started to improve, profitability had started to improve at the time the decision was made. The judgment of the administration was that things were good enough for this temporary measure to come to an end and the statute provides for that. What has happened since then is that imports have gone up. You have a statute that has a temporary relief provision. The industry has the ability, which they have exercised now, to avail itself of that temporary relief provision again and be potentially eligible for more import relief.

This wasn't the only thing that happened in the determination of that. There were also countervailing duty cases which were reviewed by the International Trade Commission. And they made a determination, based on something that wasn't in our control, that the revocation of the countervailing duty cases would not cause material injury to the domestic industry.

Honest and sincere people can differ in hindsight on whether or not that kind of decision was good because there have been, since the President's decision on not extending import relief, since the revocation of countervailing duty cases, changes in the economic conditions of many countries, including our own. And there has been an increase, a dramatic increase, in footwear imports.

And that's what gives us the case that we have today. So what our system has provided for is a way for the domestic industry to come back in and say we need more temporary relief in order to adjust to the import competition.

If they are going to avail themselves of the statutory provision, which they are, and they have a right to do—and we have encouraged them to do that—they have to realize, and we all have to realize, that what is provided for in that law is something that is temporary. If we are going to talk about establishing something that is permanent for a particular industry then it is completely different.

Senator MITCHELL. Nobody has suggested that, Mr. Hathaway.

Mr. HATHAWAY. I wanted to be clear on that.

Senator MITCHELL. No Member of the Congress, no member of the industry, there is no point in criticizing a proposal that nobody has made.

I would like to get on to one other subject, if I might, just briefly with a question. In addition to the petition, which was rejected in 1981, in 1982, as you know, the industry filed several section 301 cases. Eight countries and the European community were cited for import barriers to U.S. shoes and for trade limits on third countries that divert international shoe sales to the United States.

The administration refused to initiate investigations on any of the trade diversion cases, and it refused on five of the nine import barrier cases. Of the four cases that they did accept for investigation, the Taiwan case was dropped, and the remaining cases against Japan, Brazil, and Korea are still being pursued.

And I would like to ask a couple of questions on that. First, what is the status of the industry's 301 cases, those which were accepted for investigation? And I might note that regarding the trade diversion cases, the ITC report on the 1981 shoe decision specifically noted that other countries seek out the U.S. market because the United States has the only free market without restrictions. And the Commerce Department has identified import barriers in opening remarks.

Why, in the light of these facts, did the U.S. Trade Representative refuse to initiate investigations on these complaints? And, finally, on this, have other industries filed 301 cases alleging trade diversion? And if so, what has been the administration's response to those?

Mr. HATHAWAY. This is the weakness of my memory. I will try to work backward. The last questions is: Have we had other allegations of trade diversion? We have not had a case where we have actually found a provable trade diversion as a result of a barrier per se not that there was nothing wrong with the barrier that we were addressing, but we have not established the fact that they had a barrier that had diverted trade to the United States. What has been the problem in other cases—and we have had them in the past alleged on steel products—and the problem with this particular argument is that it is very difficult to prove that kind of case, a trade diversion case, when other markets have had a consistent practice—more consistent than ours—of limiting imports. Ones which are of a major concern to us—European communities, Japan, and more recently Canada.

And part of the problem of taking the case is being able to have some evidence to establish a causal link between the barriers and the diversion of the imports. The other thing is the statute under which they are proceeding, section 301, requires a governmental action. Many of the things that were alleged, particularly with Europe, were industry to industry understandings, which could not be established, and which would not have been within the specific purview of the trade remedy that they sought in the first place.

Senator MITCHELL. I don't want to impose upon my colleagues so if you could just briefly answer the first part of the question. What is happening with the 301 cases that were accepted and which are still being pursued?

Mr. HATHAWAY. With respect to Korea, we have had success in—even though their tariff was not bound, we have had success in just the pressure that we have applied resulting in opening of market access in Korea. They had in July 1983 import license restrictions on dress leather footwear imports. And those were removed beginning on July 1, 1983. It became subject to import licenses that are given automatic approval.

They have reduced tariffs from 50 percent to 40 percent, and will reduce it at the rate of 5 percent a year through 1988, when it will

be fixed at 20 percent. So that is what we have accomplished with Korea.

With respect to Taiwan, we have already found that the imports there have been exempt from import licensing requirements since 1973, and that Taiwan has instituted tariff reductions on a temporary basis. And they are seeking legislative approval to make tariff reductions permanent.

With respect to Japan, we chose for tactical purposes to pursue the leather case, which the barrier, the quantitative restriction that Japan has, was identical in legal context—being illegal under the GATT—was identical to that of footwear. We had had a previous case on leather which had gone through a working party and a report had been prepared in the past. So we took our best case against several of Japan's illegal quotas. And we have won that case.

And we have told Japan that we expect the same results in footwear as we are getting on leather, which will be a phased elimination of their illegal quota.

With respect to Brazil, as I said before, that is a country that had actions for balance-of-payments purposes. Nevertheless, we are still consulting with Brazil to try to get liberalization of the restrictions that they have on footwear imports.

It's not that we haven't made progress. The problem is that our exports are such a small percentage of our domestic production, a big improvement on the export market, and there is also a very long lag time when it results in anything of an improvement. It just isn't a big, big factor in the health of the domestic industry at this time.

Hopefully, it will be better in the future. But that's the long and the short of the situation on exports. We have accomplished something. But even if we accomplished everything, our exports are not that large and we wouldn't see an enormous, immediate improvement in the industry as a result of doubling from the 2 to 4 percent on the number of pairs that are produced in the United States.

Senator MITCHELL. Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Senator Mitchell.

Mr. Hathaway, just so I can understand the situation with respect to the 201 case, the ITC now has the case before it and it has a deadline of June 4 by which it will find whether or not there is injury. Assuming that it does find injury, then it will have another period of time to determine what remedies would be suitable. Then sometime in July, as I understand it, if it has found injury and does make recommendations, those recommendations then go to the President. The President consults with USTR and the Commerce Department, Labor Department and so forth and then he makes a decision within 60 days.

And it's during those 60 days that Senator Mitchell and Senator Cohen and Senator Heinz and I communicate as ardently as we can with the President and other people in the administration about the decision before the President.

Am I right?

Mr. HATHAWAY. That's correct. The report of the International Trade Commission actually by Executive order will be delivered to Ambassador Brock who receives it on behalf of the President. And

also under reorganization plans and Executive orders, he will chair and his office will chair an interagency review. A Federal Register notice will solicit public comments. Meeting will be held with anybody that has a desire to have input into the case and prepare a recommendation for the President. Ambassador Brock will give that recommendation to the President. And within 60 days of the original receipt by Ambassador Brock of the report, the President would have to announce what decision he was taking and why.

Senator DANFORTH. It would not be untoward for those of us in the Senate to be communicating with Ambassador Brock and the President or anyone else we can think of during that period of time?

Mr. HATHAWAY. It would be unheard of if you didn't. [Laughter.]

Senator DANFORTH. We would marshalling our arguments to the best of our ability.

And as I understand it, in anticipation that perhaps the ITC will find injury and make recommendations, some preliminary spade work is going on right now at the USTR.

Mr. HATHAWAY. Yes, it is. And within other agencies as well. There are nine specified statutory things that the President has to look at. And we prepare a detailed analysis on that. We work very closely with the staff of the International Trade Commission on letting them point out where in the record they did what. And with the domestic industry—for example, the extent to which relief would be effective in promoting adjustment. And that's something that we work with the industry very closely on.

Senator DANFORTH. Has USTR begun looking at those nine specified items?

Mr. HATHAWAY. Yes.

Senator DANFORTH. And you have been a part of that?

Mr. HATHAWAY. I have been a part of it. I have legal responsibility for all of the escape clause cases. And Christine Bliss, who has been doing much of the work, and Lisa Berry, who is also here with me, who is the industry policy person in charge of that particular sector, have been working on it substantially. They have literally buried me with information that they have accumulated in preparation for this. So I can say with some confidence there has been a great deal of work done. And there is a high level of expertise and understanding within the administration on the footwear industry.

Senator DANFORTH. That's good. And if we in the Senate were to really do our job, we would be focusing on those nine items and trying to make the best case we can if we are interested in trying to get to a relief for the footwear industry.

Mr. HATHAWAY. Correct. The real decision for the President and for Ambassador Brock and for the others in the administration making the recommendation is whatever the situation is, which is very complicated factually, is what is the best way to achieve the purpose of the statute. And the purpose of the statute is that when an industry is being injured by increased imports, is to provide them a mechanism of adjusting to the imports.

The most difficult, of course, is the situation where the decision is made that whatever you do the industry is not going to be able to adjust to import competition, and the adjustment is out of the

business. That's one of the possibilities that is spelled out in the statute. It's not anything that this particular industry or any others that I am aware of are facing in the short term. But it's the kind of thing where whatever response there is be the most effective in terms of helping the industry get temporary relief and be competitive against imports in whatever the world economy is.

Senator DANFORTH. The nine criteria are the criteria in section 202(c)?

Mr. HATHAWAY. That's correct.

Senator DANFORTH. Do you have it in front of you?

Mr. HATHAWAY. I do.

Senator DANFORTH. Just so I can see what sorts of things we should be thinking about, going down the list, 202(c)(1)—"Information and advice from the Secretary of Labor on the extent to which workers in the industry have applied for and are receiving or are likely to receive adjustment assistance or benefits from other manpower programs."

How does this fit into the situation with the shoe industry?

Mr. HATHAWAY. Well, for this criteria, and in general the situation with employment and workers, there are labor representatives on the interagency group that is working with this. There are people that, frankly, have been working with the footwear industry for a long period of time. They will provide that information.

Senator DANFORTH. The trade adjustments assistance program for workers is a shadow of its former self, but as I understand it, footwear workers have applied for trade adjustment assistance and do receive it, at least to some extent. So this criterion would appear to be met, wouldn't it?

Mr. HATHAWAY. The extent to which they applied for it, the criteria works in both ways. It's a question of whether or not adjustment—the reason for it being there is to let the President make an assessment. If, in fact, there were an industry where workers had not applied for a particular benefit, whatever its size, that would be of assistance to them, he can also direct expeditious considerations of applications for the adjustment assistance to the extent that it is available now. And that would be a factor that would be put into the review.

Senator DANFORTH. But can you foresee any circumstance in which section 202(c)(1) would be a barrier to the President granting relief?

Mr. HATHAWAY. Specifically, each of the criteria that he is required to review are not necessarily conditions that you pass the test or you don't. All of them have things that would go both for or against the granting of import relief or for or against a particular time or duration.

Senator DANFORTH. Well, would 202(c)(1) tend to militate for or against relief for the footwear industry?

Mr. HATHAWAY. They have been utilizing the program. And if there remains a need for adjustment in addition to that, then the fact that they have availed themself of it and it is not enough would not harm them in making a request for additional relief.

Senator DANFORTH. They have availed themselves of the program and the program is not a very rich program right now. There are a

lot of people making claims on it. So it's not a very big pot on which they could draw.

Mr. HATHAWAY. That's correct.

Senator DANFORTH. How about the (c)(2), "Information and advice from the Secretary of Commerce on the extent to which firms and industries have applied for and are receiving adjustment assistance?"

Mr. HATHAWAY. I do not foresee that. In my statement there is a very long list of programs that the Commerce Department has had working with the industry. And I have not seen anything in that that would indicate that the industry has not been availing itself of programs for adjustment. As I said, they have been quite active. And to the extent, to some extent anyway, successful in adjusting.

Senator DANFORTH. Well, No. 2, I think, is specifically trade adjustment assistance.

Mr. HATHAWAY. Correct.

Senator DANFORTH. So they have at least attempted to utilize whatever programs are available.

How about No. 3?

Senator HEINZ. Mr. Chairman, would you yield for a followup on No. 2?

Senator DANFORTH. Yes.

Senator HEINZ. If an industry has been utilizing the industry adjustment programs, that is to their advantage? And if they have never come to you to use those adjustment programs, that is to their disadvantage? Is that the way that works?

Mr. HATHAWAY. Not necessarily. But I can foresee a situation if there were a program that were available to their benefit and they were asked—if they came in and said—I'm not necessarily applying this to the footwear industry, but if an industry came in and said we have a problem, we need so much help, and there is a program which they haven't availed themselves of which provides so much help—as I said, the purpose of this statute is to provide whatever is appropriate for an industry to adjust to increased import competition however you get it.

And so if they have already availed themselves of a program——

Senator HEINZ. So the test is to the extent that there is an identifiable program that would be clearly of benefit to them and they have not used it and the benefit is significant, that might cause a different outcome, perhaps less relief and more pointing at that program.

Mr. HATHAWAY. Or a different form. What this really does is make sure that these programs were not overlooked by an industry or by the President.

Senator HEINZ. Thank you, Mr. Chairman.

Senator DANFORTH. How about No. 3? I think you have already said that the industry has attempted to adjust, to modernize and so on. No. 3 is "The probable effectiveness of import relief as a means to promote adjustment and the efforts being made or to be implemented by the industry concerned to adjust to import competition and other considerations relative to the position of the industry in the Nation's economy."

My understanding of this is that if 201 relief is to be granted, you don't want an industry to just go to sleep on you.

Mr. HATHAWAY. That's correct.

Senator DANFORTH. You want them to do their best to modernize, to adjust to changing time, to make sure that they can become as competitive as their own efforts will let them be.

Mr. HATHAWAY. That's correct. And this also concerns the form of the relief, whether it might be a tariff or quota or it might be an orderly marketing agreement against just a particular supplier. So you have to look at the entire process of providing import relief or a package of import relief, and making sure that whatever you were doing, if you are going to provide relief, whether it's going to promote adjustment.

If you are determined that it isn't, then there is really not much point in doing it.

Senator DANFORTH. Then you have just got a corpse on your hands.

Mr. HATHAWAY. You may well have or you may well find another problem other than trade that is the source of a problem.

Senator DANFORTH. But in any event, you think that No. 3 is an area where the footwear industry is trying pretty hard and doing a pretty good job?

Mr. HATHAWAY. They have been working quite hard at this. They have been in contact with our office and with people in the administration. I can't prejudge this. These are factors that the President has to consider, and we have to consider when we get the case, but it is something that they are certainly aware of.

Senator DANFORTH. No, I'm not asking you to prejudge it. I'm just asking you for the kinds of considerations so that we can bone up on it.

Mr. HATHAWAY. What we really try to look for in this is if an industry comes in and asks for, say, a quota of a certain level or an increased duty of a certian level, the question is how is that going to be used to keep you from using import relief to just delay the problem. We don't want to just use it to say we will put in 3 years and we will delay the day of reckoning for the industry with imports until it is somebody else's problem and not one that we have to deal with today. So we want to make sure that if import relief is going to be imposed, which has some cost to it, that it will be effective. We don't want to end up with a situation where you either have a need for some kind of permanent relief or you have an industry die on you when you could have done something to save it.

Senator DANFORTH. How about No. 4? "The effect of import relief on consumers, including the price and availability of the import article, and by like or directly competitive articles produced in the United States, and on competition in the domestic markets for such articles."

Mr. HATHAWAY. This is an economist's field day. We have a very detailed analysis done on the cost of relief, the impact on inflation, and the impact on consumers. The question on availability and competition is the same kind of thing we will be stressing in discussions with Canada on the action that they took.

Rather than having a shotgun approach to trade remedies, you can provide relief only on a particular kind of product. Then you can define the relief to make it only as broad as necessary, burden-

ing consumers only where you need it to help the industry to adjust. That is the purpose of this kind of provision as well.

Senator DANFORTH. Don't you think that regardless of what is done, there is still going to be a wide availability of shoes both imported and domestic, and also significant competition?

Mr. HATHAWAY. In past cases the question of availability has not been an inordinate burden. It depends on the kind of relief. If you had a complete embargo or you said there are going to be five kinds of shoes that can come into the United States, you are talking about 70 percent of the market now being served by imports, and you could have a problem where you didn't have the capacity to meet it. But that's the extreme case.

Senator DANFORTH. But at least insofar as the availability and the competition parts of this subsection four, they really should not be barriers, should they, in the shoe case?

Mr. HATHAWAY. These factors are considered in every import relief case, and import relief is granted. So, obviously, they don't always result in no relief being granted.

Senator DANFORTH. Sure. Certainly for shoes in particular. Shoes are going to be available and a lot of people are going to be making and selling shoes.

Mr. HATHAWAY. Well, as I said before, there are 547 producers in the United States of varying sizes. So it's a factor that is considered. Certainly it would be more difficult for the President to impose import relief if he thought everybody in the country or two-thirds of them were going to be barefoot after the relief was imposed. But that isn't something that we really foresee as a possibility.

Senator DANFORTH. Right. So I take it that the real bone of contention will be the price effect on consumers.

Mr. HATHAWAY. That's usually a major concern in the analysis of the case. How much prices are going to go up as a result of it. That's linked back to the question of what the company and workers are going to do with that increased price that they get. Whether they are going to undertake the necessary adjustments to be competitive when the relief is over.

Senator DANFORTH. How about No. 5? "The effect of import relief on international economic interests of the United States."

Mr. HATHAWAY. It is also related to the next one, No. 6.

Senator DANFORTH. No. 6 is: "The impact on U.S. industries and firms as a consequence, any possible modification of duties or other import restrictions which may result from international obligations with respect to compensation."

Mr. HATHAWAY. Let me give you an extreme example. Well, I won't give you extremes. I will give you real examples. Senator Heinz is familiar with some of them.

When we had import relief on specialty steel, other countries were entitled to pursue a rebalancing of tariff concessions. And as a result of imposing additional duties and quotas on some countries, they were entitled to rebalance the concession and raise the duties on some products that the U.S. exports to them.

So whatever action we take is not taken with impunity. And we have obligations which we avail ourselves of our rights when other countries take these things. And other countries do as well.

So there may be a cost involved. It depends on the country. It depends on the level of the relief.

Senator DANFORTH. But No. 5 and No. 6 both point to the country against whom relief is imposed. And the effects of granting relief with respect to any kind of compensation sought by the——

Mr. HATHAWAY. That's a major concern.

Senator DANFORTH. Yes.

Now isn't Taiwan one of the leading shoe exporting countries?

Mr. HATHAWAY. That's correct.

Senator DANFORTH. And, of course, Taiwan is the beneficiary of the generalized system of preferences.

Mr. HATHAWAY. They are. Not in footwear. It doesn't get that benefit.

Senator DANFORTH. Right. But the general trade relationship between the United States and Taiwan includes the GSP.

Mr. HATHAWAY. Well, not necessarily. Taiwan is no longer a member of the GATT but they are under the Taiwan Relations Act and under bilateral agreements that have been—or obligations that have replaced that. There are obligations for most-favored-nation treatment and other types of trade rights that we have and obligations that we have. And by the same token, Taiwan has rights and obligations as well.

Senator DANFORTH. In any event, Taiwan is the major exporter to the United States of a number of things.

Mr. HATHAWAY. That's correct.

Senator DANFORTH. Taiwan does have special trade status by virtue of being covered by the GSP.

Mr. HATHAWAY. Correct. And to the extent these things are—they also import from the United States. And in some areas in substantial quantities.

Senator DANFORTH. Do you think that Taiwan would be extracting considerable compensation given the basic trade relationship with the United States?

Mr. HATHAWAY. The specific rights to compensation would exist. What we have normally done in the past is, without going through compensation, to work out some kind of balancing of concessions apart from imposing that.

Senator DANFORTH. In the GSP we have pretty well given them concessions.

Mr. HATHAWAY. You are asking if we have already paid in advance for whatever it is. And I couldn't characterize that as being the case without knowing exactly the kind of relief. But we have normally been able to—the kinds of situations where we have had retaliation back and forth has not normally come from Taiwan or from Korea for that matter. We have not normally had that kind of relationship. Not that it doesn't have an economic cost someplace, but it isn't one that is in the newspapers and press releases about retaliating.

Senator HEINZ. Would the chairman yield just for a clarification on that point?

Senator DANFORTH. Yes.

Senator HEINZ. Mr. Hathaway, as we all know, there are countries, particularly EC countries, that place quotas on imports. The Japanese place quotas on imports. But it's a little difficult for us to

know exactly what those quotas are, what the duty rates work out to be because you never get quite that far. Does the United States ever claim compensation for any of those activities against us?

Mr. HATHAWAY. Yes. We negotiate compensation packages. One reason we don't always see a tradeoff in a particular case is that we, over time, take a number of actions which impair restrictions on other countries. They may well do the same. We may end up trading off saying that we have a claim against you of so much, and you have one against us so much, so we cancel those two. So we quite often do that. We do pursue our rights.

Senator HEINZ. In the last 3 years, have we a list of all the claims that——

Mr. HATHAWAY. I would be happy to provide that for you.

Senator HEINZ. That would be helpful.

Thank you, Mr. Chairman.

Mr. HATHAWAY. And more years than that, if you would like.

[The information follows:]

U.S. COMPENSATION CLAIMS IN RESPONSE TO THE WITHDRAWAL OF FOREIGN CONCESSIONS, 1981–84

Country	Product	Date of action	Current status
Article XIX (Safeguards):			
Canada:			
	Nonleather footwear	Dec. 1, 1981	Negotiations continuing.
	Leather footwear	July 22, 1982	Do.
	Yellow onions	Oct. 15 1982	Do.
EC	Dried grapes	Nov. 2, 1982	U.S. rights reserved. Case is being pursued in dispute settlement procedures on EC's processed fruit regime.
Australia	Light bulbs	July 26, 1983	U.S. rights reserved. Compensation being sought under article XXVIII.
Article XXVIII (Modification of bindings):			
Australia	Revised entire tariff schedule	Nov. 4, 1981	Negotiations continuing.
Canada:			
	Lab Glass	July 28, 1981	We have accepted Canadian compensation offer.
	Feed pellet, mill parts, and bulldozer attachments.	Apr. 29, 1983	Negotiations continuing.
	Compressed yeast	Oct. 28, 1983	Do.
EC	Corn gluten feed	Apr. 12, 1984	First consultations scheduled for June 12, 1984.
New Zealand	Pens and pencils; polymerization products.	July 15, 1982	United States has requested compensation.
South Africa	Several products	Aug. 17, 1981 to July 5, 1983	Negotiations continuing.
Sweden	Shrimp and other fish	Aug. 27, 1982	Consultations delayed until Sweden completes negotiations with the EC.

Senator DANFORTH. No. 7: "Geographic concentration of imported products marketed in the United States." What does that mean? Does that mean geographic concentration of the exporter or of where it comes into the United States?

Mr. HATHAWAY. It really means whether the imported products are all coming in and being consumed in one particular area so that if you had a particular product that was imported, but really only competitive in one part of the United States because of transportation, economics or whatever, that you should consider that in imposing a relief.

It works both ways. We don't have the ability to impose a quota on something into the southeastern United States, say, or the west coast because of our constitutional system. And what you have to do—if the injury is regional, in effect, you have to make sure that whatever form of relief you are providing is one that would be effective for helping the industry in that region adjust. If you have a local problem, you shouldn't look at it as a national problem.

It's a consideration. It could affect the case in many different ways.

Senator DANFORTH. That would be irrelevant for shoes, wouldn't it?

Mr. HATHAWAY. To my knowledge, that is not a factor in footwear consumption.

Senator DANFORTH. No. 8 is: "The extent to which the U.S. market is a focal point for exports of such articles by reason of restraints on exports of such articles to or on imports of such articles in third country markets."

That would be clearly applicable, wouldn't it?

Mr. HATHAWAY. The International Trade Commission has found that to be the case. In this particular situation, which is different from what we would be doing if we were pursuing a 301 case, like Senator Mitchell was referring to, this is one where it is just a consideration by the President. It isn't where we are going off and filing a legal brief saying here is what it is and here is our causal link. It is a more general problem. If all the other markets of the world are generally closed and ours is generally open, without having——

Senator DANFORTH. I understand all these points are just matters that the President considers.

Mr. HATHAWAY. That's correct.

Senator DANFORTH. No. 8 would be one that would pretty clearly militate for relief, wouldn't it?

Mr. HATHAWAY. The other markets of major concern do have some kind of import restrictions where the United States does not. And the intent of this is to look at that. And I'm sure the ITC, in making its recommendations, will also consider this and will provide that information to us.

If, in fact, they find the same thing that they have before, it would support a finding, affirmative finding, by the Commission, and it would probably support a granting of relief by the President.

Senator MITCHELL. They specifically noted that, Mr. Chairman, in the 1981 decision.

Mr. HATHAWAY. That's correct.

Senator DANFORTH. And from your analysis, USTR's analysis, you don't have any reason to believe that that has changed since 1981, do you?

Mr. HATHAWAY. No.

Senator DANFORTH. How about No. 9? "Economic and social costs which would be incurred by taxpayers, communities and workers if import relief were not provided."

I mean one of the things it said with respect to the shoe industry is that, well, a lot of the shoe plants are located in small towns. It's the only significant employer. When the shoe plant closes, that causes a disaster for that community, major loss of income, people can't go into some other field.

Mr. HATHAWAY. That is the kind of consideration that is looked at in this particular analysis. And the situation of having a regional industry where the workers are not readily trained for other kinds of work would certainly not bode ill for granting some kind of import relief.

That was a factor that was considered positively in the last granting of import relief, although, as I said before, all of these factors can operate both for and against a granting of import relief. And, certainly, in the situation here, a good case could be presented.

And what you were asking in going through this list were which kinds of things should the industry concentrate on in terms of providing information to our office and to the President. And the things that you have outlined are the sorts of things that we would expect to see in the representations from the industry and workers.

Senator DANFORTH. Also at the beginning of the section it says: "In addition to such other considerations as he may deem relevant"—and then it specifies the nine. Are there any other things that we should be thinking about?

Mr. HATHAWAY. The major thing to look at in any kind of escape clause case that we have faced is the cause, which is not per se something that the President looks at—the ITC does it, but the extent to which imports are a cause of the injury and the extent to which any kind of temporary import relief can eliminate the injury and can provide the industry with a chance to adjust.

One of the things that is a problem in the footwear industry is the disparity of wage rates, which is probably going to exist. It exists for many industries. It exists for the United States in general.

What you have to have—if wage rates are going to be higher in the United States because of our standard of living—and I'm not trying to imply that they shouldn't be—but what the industry has to do is to come up with some other forms of efficiencies to make themselves competitive in the world market if a temporary relief is going to give them a solution. That is really what needs to be done.

Senator DANFORTH. What you want to know is is there some future for the industry that can be helped along by granting the relief.

Mr. HATHAWAY. Granting a temporary relief program. That's the purpose of the statute. And that's a major function of what we look at. Yes.

Senator DANFORTH. It seems to me that 202(c) really describes the footwear industry. The criteria were written almost as though the footwear industry was in the mind of the draftsman.

Mr. HATHAWAY. They may have been.

Senator DANFORTH. The main questions that still may need to be asked involve the effect on the price of shoes as far as the consumer goes.

Mr. HATHAWAY. That is certainly a factor.

Senator DANFORTH. Second, that there is a future to the footwear industry in the United States.

Mr. HATHAWAY. Put more positively, what is the future of the industry and given the world situation in terms of other producers, what can they do with import relief so we will not be back here again. And, hopefully, I will not be back here again doing the same thing. [Laughter.]

Mr. HATHAWAY. Again, after a brief period of time.

Senator DANFORTH. Senator Mitchell.

Senator MITCHELL. Mr. Chairman, could I just make a comment. I commend you for going through the nine criteria. I hope that when you and Senator Heinz and others see the President you will not fail to at least mention item No. 10. That is spelled e-l-e-c-t-i-o-n.

I don't know if the draftsman when he said "other considerations" had that in mind. But that is coming up, and I hope you will at least bring it up when you get down to the White House.

Mr. HATHAWAY. It's a different way of spelling relief. [Laughter.]

Senator HEINZ. Mr. Chairman, first of all, I want to commend you on having led an encyclopedic discussion of the finer points of section 201 and section 202(2) specifically. I am tempted to observe that anything we can do to shorten the number of criteria in that section, particularly focusing on leaving No. 3 in there, would suit your and my purposes, particularly as the third questioner.

I do want to focus on items 3 and 4 in that list, Mr. Hathaway. With respect to promotion of adjustment, the future of the industry in bringing about adjustment, what part in your deliberation is played by your knowledge of the certainty of the level of adjustment expected?

Mr. HATHAWAY. Well, I think it would be misleading if I said that there has ever been an import relief case where there was certainty of anything other than the fact of a particular level of relief being imposed.

What happens to a particular industry and what happens to adjustment plans is something that is a major consideration. It is one, though, which is uncertain because of the nature of our economy and philosophy. Businesses should run businesses and not the Government, that we don't profess to know everything about an industry, and we don't profess to be predictors of the future to know whether a plan that an industry has undertaken is one which is reasonable for them to follow.

It may well be that situations change and they may need to do more to adjust than they had anticipated at the time of adjustment. And we have recently in escape clause cases maintained an interagency review of the adjustment that is going on and asked for periodic input from the industry on how their adjustment was going and whether the relief that was in place was effective.

So to the question of how much information is wanted—we would like to get all the certainty that we can that any import

relief was going to be effective. But nobody is naive enough to believe that there is going to be certainty of what is going to happen.

Senator HEINZ. My question is not whether there is perfect certainty, but how much does your appraisal of certainty or lack of it play a part in the recommendation to the President on whether or not or how much import relief to grant?

Mr. HATHAWAY. It's a significant factor because if there isn't any judgment that the industry can use import relief to adjust, then you are looking at an entirely different and, frankly, very unpleasant situation where you are saying this industry is not going to survive in the long term and you are just deciding whether or not you postpone it or allow it to phase out through import relief. It's a whole lot more pleasant process to be figuring out what you can do with it or what an industry can do and how an import relief case can help them in adjusting and becoming competitive.

Senator HEINZ. The way the system works—correct me if I'm wrong—is that in effect the industry comes to you in this process and says if you give us relief, we believe we will be able to do certain things. We will put in more automatic shoe sewing equipment. We will develop new technology. We will do some other things. Is that the way that process works?

Mr. HATHAWAY. Yes.

Senator HEINZ. The industry comes to you and tells you what they think they can do over the next 3 to 6 years.

Mr. HATHAWAY. We don't go out and tell the industry what we think they ought to do.

Senator HEINZ. I'm just asking how it works.

Mr. HATHAWAY. We ask them what in their judgment they are doing. And we try to make sure that they actually are planning to do. If they came forward and said we are planning on adjusting out of this industry in 3 years and, frankly, we would like to make as high a profit as we can for 3 years, and then bail out, and we would like for you to give us 50 percent tariffs so we could do that. That would be an entirely different situation than the situation you have with the footwear industry where they are actually trying to stay alive and be competitive.

Senator HEINZ. In discussions with the industry where it is clear from what you have just said, that the industry will be more or less likely to gain import relief based on what they are planning to do or more directly, I suppose, what you really think they are going to do, irrespective of what they say they plan to do, the industry clearly would like to know if it jumps 3 feet high, it will get 3 feet worth of import relief. If it jumps 6 feet high, how many feet of import relief will it get?

Now does that kind of discussion go on? Do you discuss proportionality of efforts by the industry and relate them to proportionality of import relief?

Mr. HATHAWAY. If I can avoid your question by giving you an example. See if you like the example first. We had a situation where we had the domestic industry come in in another case in years past and we asked them what they planned to do to adjust—and for anybody else here I am never going to say which industry this was so noboby can bother asking—we asked them what they were going to do to adjust to import competition. They just looked at each

other like we don't have any plans, we had never thought about it, we had never discussed it.

That was really the kind of situation that we faced several years ago in some import relief cases. What we have done in more recent years is to try to focus on the utility of the relief. It has become not only a question of what kind of relief or how you can impose it, but matching relief to adjustments. It may well be that they are planning on doing a kind of adjustment where they need very high duties for a short period of time in order to do what they need to do to adjust. So you want to get that form of relief. Having a modest quota for a long period of time may not do them any good at all.

So you need to know what they are going to do and what they really need. Whether they need to just have the numbers down, the prices up. All of that information goes into the consideration. The more specificity and the more knowledge they have about what they are going to do and the more convincing case they can make that it is going to be effective, the better their chances are for getting the kind of import relief they would like to have.

Senator HEINZ. There are variables, however, as you know, we all know, that can be beyond the control of the people in the industry. Even if the head of the Amalgamated Textiles Workers says, well, I can assure you that 6 months from now we are not going to demand an increase in wages or salaries, we will do our part; even the best intentioned union leader may be wrong. Circumstances may change. The annual reports of the companies may look so fat and juicy that it becomes irresistible. That appears to have happened in the auto industry.

So you are dealing in an area of uncertainty. And one way of characterizing what happens is item number four where you assess price. Assuming availability isn't a problem, you should be wondering about what is going to happen to the increased revenues generated by the increased price that some form of protection is going to produce.

The problem I hear you identifying is you have no way of assuring the President or each other—and there is no way the industry can assure you—that the benefits of protection are going to go either to the long-term modernization, and improvement in competitiveness of the industry, or alternatively that they are going to go and make labor or management or shareholders or creditors fat and happy.

Would it make a difference to you if you could obtain much firmer assurances as to what was going to happen because, in effect, those assurances were things that you could demand because the statute allowed you to demand them? The quid pro quo for import relief.

Mr. HATHAWAY. I was afraid you were going to get to your bill.

The conditions of being able to impose particular conditions can be, to some extent, done under the existing statute because the President has the ability to review this. In many years past, as I said, there were not adjustment task forces to review escape clause cases. We have been increasingly resorting to that to make sure that planned adjustment was taking place, and, frankly, to observe whether situations had changed so that the adjustment they

thought they were going to do wasn't appropriate and some other form of adjustment was.

Being able to extract particular commitments implies that you can predict with more certainty than we have what it is you really need to do. We have a way and a policy of getting at a commitment to adjustment and monitoring that under the existing statute. I'm not sure that having it mandatory with the ability to revoke it or having it in some way linked to a particular level of relief is as appropriate as a system that has the flexibility to allow for changes that were unforeseen.

Senator HEINZ. On that point, it seems to me that, at least, I sense a small inconsistency in either the law or in what you are saying, which is this. On the one hand, I thought I heard you agree that the amount of import relief that is gotten is related in some respect to what the industry can do to make itself more competitive. That's the ideal use of 201.

Second, I thought that there was general agreement between us on the notion that looking into the future is uncertain, and because it is uncertain one takes conservative estimates. The industry says it can do X, and you say, well, that's optimistic; they can really do Y, and we will build the import relief recommendation based on our assumption. Ultimately, we have got to make the decision.

It seems to me that to the extent that you can eliminate the discrepancy between X and Y, which is based on uncertainty, you can give an industry a better opportunity to adjust as opposed to a lesser one.

Clearly, the less they have, the less shelter they have. Most of the time, it will be more difficult for them to do the things they want to do. So it is not entirely clear to me that the statute, as written, really operates as well as even you would want it to. It would seem to me that you would want to have more predictability, more certainty. And I hope that when the industry is before us, it will be able to give you both today and on subsequent occasions the kinds of warranties that, even though they are of a more informal nature, will be helpful to you and to them in winning the relief they need.

Mr. HATHAWAY. If we get an affirmative case from the ITC, we will look forward to working with the industry on all of these criteria, including the one on adjustment.

Senator DANFORTH. Mr. Hathaway, thank you very much for your testimony.

Next we have a panel of Richard Shomaker, president of Brown Shoe Co.; Dan Munro, Munro & Co., and chairman of the Footwear Industries of America; Sam Delfino, vice president and director of manufacturing and processing department, United Food & Commercial Workers International Union; Robert Leverenz, chairman of Leverenz Shoe Co.

STATEMENT OF GEORGE LANGSTAFF, PRESIDENT, FOOTWEAR INDUSTRIES OF AMERICA, PHILADELPHIA, PA

Mr. LANGSTAFF. Mr. Chairman, I'm George Langstaff, president of FIA, the Footwear Industries of America, a trade association of the manufacturers and its suppliers.

I would also like to introduce Jim Fitzgibbons who is with me today, but not actually testifying. Jim is president of Howes Leather Co., and also chairman of the International Trade Committee of the Tanners Council of America, and represents the supplier industry that supplies the footwear manufacturers.

Neither of us will be testifying, but we will be here to answer any questions you might have. Members of our panel will introduce themselves as they submit their statements.

Thank you.

[The prepared written statements of Mr. Langstaff and Mr. Fitzgibbons follow:]

STATEMENT OF GEORGE LANGSTAFF
PRESIDENT, FOOTWEAR INDUSTRIES OF AMERICA, INC.

Good morning, Mr. Chairman and members of the Subcommittee. My name is George Langstaff. I am President of Footwear Industries of America, Inc., the trade association of the U.S. nonrubber footwear industry.

During the first half of my thirty-six year involvement with the U.S. nonrubber footwear industry, I saw the industry blossom and expand throughout 41 states of the union. I saw hundreds of factories opened to provide jobs in small communities and urban neighborhoods where unemployment was rampant. I personally participated in building 15 factories in the East, Midwest and the South during the 50's and the 60's as footwear production in this country increased. I saw the changes wrought in many communities where the shoe factory brought steady employment to unskilled and semi-skilled workers. The nonrubber footwear industry has been a part of the lifeblood of small-town America.

During the second half of my tenure in the industry -- or since roughly 1968 -- it has also been my unpleasant experience to see the most productive footwear industry in the world battered to its knees by imports from countries whose wages and living conditions our nation would not tolerate. During this period it has been a sad part of my responsibility to personally preside over the closing of 17 excellent factories, including the one where I first started in the business in 1948. I have seen the pain, heartache and economic destitution which accompanies these closings.

During this period the industry grew from some 475 million pairs produced in 1948 to a high point of some 640 million pairs in 1968. It ultimately employed 200,000 people in direct manufacturing and another 135,000 in supplier and related industries. It operated almost a thousand plants in 41 states.

Now, in the face of an avalanche of imports from low wage countries, the industry produces only 340 million pairs in this country. Only one out of every three shoes sold in America in 1983 was made in America. Over 400 factories have been closed in direct manufacturing alone. Well over 70,000 badly needed American jobs have been exported to other nations.

In spite of its many problems, this is an industry which is aggressively at work to help itself. In our prehearing brief, to the International Trade Commission, we have outlined a game plan for survival which we modestly believe is comprehensive and impressive. We firmly believe that this game plan will allow the industry to narrow the competitive gap. It offers the potential for dramatic improvement in productivity, for significant reductions in material and labor costs, for much more rapid response to consumer and retailer needs, and for consumer satisfaction through superior comfort, fit and performance.

Many of the steps outlined in our game plan have already been implemented by individual companies with some success. Quite frankly, however, the majority of firms in the industry find the present competitive environment to be such that they cannot justify the substantial short-term capital investments that must be made now to guarantee the long-term viability of their domestic production.

The easier choices now are to import or to diversify into other businesses while curtailing domestic footwear production. What we need is the effective period of import relief that we asked the International Trade Commission for over eight years ago.

A meaningful period of import relief would provide a dramatic opportunity for the domestic industry and FIA to embark on major programs to improve competitiveness. FIA has been evaluating and developing a number of options for stimulating new efforts to upgrade the overall capability of the domestic industry. Our basic objectives are to achieve:

(1) Manufacturing technology which is the most advanced in the world, and through that, significant reductions in the cost of producing footwear domestically;

(2) Consumer focused marketing which provides U.S. manufacturers with superior knowledge of the needs, wants and purchasing patterns of U.S. consumers;

(3) Management skills which provide superior leadership for domestic companies;

(4) Quality of product which is superior in design, appearance and performance; and

(5) Customer service which improves communication between retailers, manufacturers and suppliers with the goal of establishing more rapid and accurate servicing of retailer/and consumer requirements than imports can provide.

Let me discuss each of these briefly and the steps we plan to take.

First, we believe we can achieve manufacturing technology which is the most advanced in the world.

I cannot emphasize enough that this must be the industry's top priority. Without the widespread adoption of advanced technology, the industry will not be able to reduce costs; and without a relative reduction in costs, the industry will not be able to compete with imports on the most important level of all: price. But I'm happy to say that the technology is here, and more is coming. The question is whether there will be a domestic industry left to use it.

Under the guidance of FIA's Technology Steering Committee, the industry in partnership with the Department of Commerce has recently completed a technology study which (1) clearly defined current state-of-the-art technology for major shoe construction categories; (2) identified the priority requirements as perceived by the industry for new technology research and development; and (3) set the stage for the creation of an ongoing program of focused research and development for the industry.

FIA then organized a New Technology Task Force which is now engaged in a broad effort to stimulate R & D work on the eight highest priority requirements of the industry. In addition, FIA is preparing to embark on an audit program to compare individual companies' technology against state-of-the-art technology with the goal of helping these companies develop plans within their available capital resources which will maximize productivity and quality.

These programs will receive a major shot in the arm from a period of import relief. Management will be able to prudently commit

existing resources -- such as they are -- to increased R&D and capital expenditures. Increased pairage would allow the dedication of additional sums to R&D and plant improvement. Moreover, under a period of relief, it is much more likely that financial institutions and investors will be willing to make additional capital available for improvements in plant and machinery.

Second, we believe we can achieve consumer-focused marketing which provides U.S. manufacturers with superior knowledge of the needs, wants and purchasing patterns of the U.S. consumer.

Under the broad direction of FIA's Marketing Steering Committee and the specific authority of the committee's Market Research Task Force, a consumer purchase data base called FOOT/TRACK has been developed. This highly cost-effective program provides superior insight into consumer buying patterns. FIA is undertaking a major training effort to teach market research skills and the techniques for converting data base information into consumer-oriented product lines and marketing programs.

The development of the program and the skills to utilize it effectively takes time. Under a period of relief, the full benefits of the FOOT/TRACK program could be realized, thus enhancing the competitiveness of domestic companies in their marketing activities.

Third, we can foster management skills which provide superior leadership for domestic companies.

A comprehensive program for management development is underway and expanding under FIA's guidance. This program covers a broad range of management skills in the areas of manufacturing, marketing,

finance, computers and general management. It features training programs, seminars, conferences, trade shows and targeted management research. The activities are being developed and offered to the industry by committees and task forces of industry executives with FIA providing ideas and general direction. Obviously, the longer the period of relief, the more progress that can be made in the development of superior management skills.

Fourth, we believe we can achieve a quality of product which is superior in design, appearance and performance.

FIA recently kicked off a program of "quality management" which is designed to improve the approach of the domestic industry to the entire process of managing the quality performance of U.S.-produced footwear. It is the intention of the Technology Steering Committee during the period of relief to engage the industry in a full reappraisal of its method of managing quality throughout the full cycle of design, specification, purchasing and manufacturing. The ultimate objective is to produce domestic products which are superior in the consistency of quality and performance levels to any other footwear in the world.

Finally, we can develop a better system of customer service so that domestic manufacturers will increase their competitive advantage in the servicing of retailer and consumer requirements.

FIA, together with the two retail trade associations (VFRA and NSRA), has initiated a task force study to define a standard technique for product coding of footwear. This is a major step in

the process of creating interactive, computer-to-computer merchandising systems. Such systems, when developed, will permit rapid response to changing consumer demand and will greatly assist retailers in responding effectively.

Once this system is operating, the domestic industry will reap major competitive benefits due to its short turn-around times and close proximity to the retailer.

Also, through FIA's Computer Management Committee, efforts will be undertaken to assist domestic companies in designing, installing and operating such systems. Here again, the required capital investment is significant. A period of stabilized business opportunity will greatly increase the investment incentive.

In conclusion, there are many steps which will be undertaken by the domestic industry during the period of relief which will have a positive effect on the industry's ability to compete. It is vitally important to these programs that potential investors see a stable business environment which will provide them a reasonable chance to profit from the major investments required.

If meaningful relief is provided for the length of time permitted under the trade laws, I believe the domestic industry can and will take major steps to improve its ability to compete effectively with import competition.

Thank you.

STATEMENT OF

JAMES M. FITZGIBBONS

CHAIRMAN, INTERNATIONAL TRADE COMMITTEE

TANNERS COUNCIL OF AMERICA

Good morning, Mr. Chairman and members of the subcommittee. I am James M. Fitzgibbons, of Howes Leather Co., Inc. Quincy, Mass. I am also chairman of the International Trade Committee of the Tanners Council of America, my testimony today is on behalf of the TCA and reflects my own personal views.

The Tanners' Council of America, Inc. ("TCA") supports the petition for import relief filed on behalf of the Footwear Industries of America, Inc., the Amalgamated Clothing and Textile Workers Union, AFL-CIO, and the United Food & Commercial Workers International Union, AFL-CIO under section 201 of the Trade Act of 1974, as amended.

The devastating effect of ever-increasing imports on the domestic nonrubber footwear industry has been demonstrated amply in petitioners' submissions to the ITC. TCA believes that this serious injury alone justifies an affirmative determination, and will not review those submissions here.

TCA nevertheless wishes to apprise the subcommittee of the broader ramifications of surging footwear imports, and consequently of its determination in this investigation. Despite critical economic advantages over its foreign counterparts, the U.S. tanning industry has been forced into a precarious position by declining domestic markets and artificially distorted foreign markets. In no segment are these factors more important than in the nonrubber footwear industry of the U.S. leather products sector, which accounts for 60 percent of domestic leather production. Absent a meaningful and effective period of import relief, or the termination of unfair market intervention by foreign governments, the domestic tanning industry will continue its decline to share the fate of the nonrubber footwear industry.

I. INTEREST OF TCA

TCA is a trade association incorporated in the District of Columbia comprised of members of the U.S. leather tanning, supplier and foreign tanning industries. Formed in 1917 to facilitate industry mobilization and production during World War I, TCA is one of the oldest trade associations in the United States. It currently has more than 100 tanner members, and represents the vast majority of leather tanners and finishers in the United States. TCA members are located in 34 states, with the largest concentrations in the New England states, New York, New Jersey, Pennsylvania, Tennessee, Wisconsin and California.

The U.S. tanning industry is comprised essentially of leather tanners and finishers. Tanners procure raw or cured hides and skins and convert them into finished leather. Finishers and processors generally convert semi-finished leather into finished leather, often on a contract basis. Finished leather is the raw material for leather products manufacturers, who cut the leather into desired shapes for the manufacture of footwear, luggage, handbags, personal accessories, wearing apparel, and gloves. In addition, finished leather produced by tanners is consumed by automobile and furniture manufacturers for upholstery, by baseball and baseball glove manufacturers, and by harness and saddle manufacturers.

TCA's interest in this proceeding is clear and direct. The future of the U.S. tanning industry is inextricably linked with that of the U.S. nonrubber footwear industry. According to the U.S. Industrial Outlook, sales to the nonrubber footwear industry alone accounted for 60 percent of U.S. leather production in 1983. Leather produced by TCA members is used in nearly every aspect of shoe manufacturing: leather uppers, leather insoles, leather lining and leather soles. TCA and its members thus have a direct economic stake in the continuing viability of the U.S. nonrubber footwear industry, which in turn will be dictated largely by the outcome of this proceeding.

II. CURRENT STATE OF THE U.S. TANNING INDUSTRY

If purely commercial and economic factors were to hold sway, the U.S. tanning industry would be in a much better state of economic health. The U.S. tanning industry enjoys several economic advantages — such as an abundant supply of high quality raw materials, ample supplies of tanning chemicals, and modern and efficient production techniques — that should translate into substantial commercial advantages over its foreign competitors. But the combined effect of import erosion of domestic leather consuming industries and artificial distortions in foreign raw material and leather markets has negated these advantages and resulted in a steady decline in the U.S. tanning industry. In no segment have these trends been more evident or more important than in the nonrubber footwear industry.

The U.S. tanning industry enjoys several economic advantages which, when taken together, should result in commercial advantages over its foreign counterparts. First and foremost, there is an abundance of raw material in the most significant category: cattlehides. Cattlehide leather is the most widely produced type of leather in the United States, particularly for use in footwear production. As shown in Table 1, only the Union of Soviet Socialist Republics and India rival the United States in cattle population, and India and the Soviet Union have heretofore been insignificant factors in world hide markets. The current cattle population of all Western Europe (92.9 million head) is more than 22 million head less than the 115.2 million head present in the United States. Even Brazil and Argentina — major leather and leather products exporting countries — register 1983 cattle populations of only 93.0 and 58.0 million head, respectively. Other major exporters of nonrubber footwear particularly and leather products generally, such as Korea (1.8 million head) and Taiwan (127,000 head), have insignificant cattle populations.

Beyond a sheer numerical advantage in cattle population, U.S. tanners enjoy additional advantages in raw material supply because of two characteristics of the U.S. market. Most cattle in the United States are raised and slaughtered commercially. This method of raising and slaughtering cattle results in higher quality raw hides for conversion into leather. U.S. hides are thicker and freer of brush and insect damage than hides in other countries. Because most U.S. cattle are slaughtered in large packing plants, the takeoff and cure of U.S. hides are generally better and more consistent than in other countries. All of these factors result in hides of higher and more consistent quality than those available in other countries.

Moreover, the actual supply of hides, as well as cattle, is greater in the United States. The supply of cattlehides is dictated not by the demand for hides, but rather by the demand for red meat. For various religious, cultural and economic reasons, the demand for red meat is less in most countries than in the United States. India, for example, registers an insignificant slaughter despite having the largest cattle population in the world. The higher U.S. demand for red meat results the highest rate of slaughter of any country in the world, and thus in a larger supply of cattlehides.

In addition to this raw material advantage, U.S. tanners enjoy an advantage in the other basic material of tanning: tanning chemicals. The highly developed U.S. chemical industry provides the domestic tanning industry with an ample and readily available supply of tanning chemicals. Further, TCA and its Foundation fund the Department of Basic Science in Tanning Research and its laboratory at the University of Cincinnati. The laboratory has contributed greatly to the advancement of leather tanning technology, as well as of the control of the ecological effects of tanning, and shares its findings with the industry.

Finally, the U.S. leather tanning industry is generally recognized as being as cost competitive and productive as any in the world. It is as automated as its

counterparts in other countries. In fact, the tanning industry is the most capital-intensive industry in the leather and leather products sector of the U.S. economy. This advantage results in higher productivity and, conversely, greater sensitivity to price and volume declines than foreign tanning industries.

These fundamental advantages should translate to a successful and viable domestic industry. They have not, however, because of the erosion of U.S. leather products industries by imports and intervention in the raw hides and leather markets by foreign governments.

As shown in Table 2, U.S. imports of leather products have increased dramatically in value since 1975. These surges occurred in every category of leather products; indeed, the value of imports has more than doubled in every category except leather wearing apparel. U.S. imports of all leather products grew in value from $1.6 billion in 1975 to $5.2 billion in 1983. The most significant category, both in terms of the size of the increase and the portion of total imports represented, was nonrubber footwear. In 1983, for example, nonrubber footwear imports accounted for $3.7 billion of a total $5.2 billion in leather products imports.

Surging imports have caused declining production in all segments of the leather products sector. The devastating effect of imports on the nonrubber footwear industry has been documented fully by petitioners. The same bleak picture also holds true for other segments of the leather products sector. In 1983, import penetration by value stood at 59 percent for leather wearing apparel, 46 percent for handbags, and 39 percent for luggage. According to the U.S. Industrial Outlook, domestic production in all segments of the leather products sector can be expected to decline even further.

Given this erosion of domestic markets and the competitive advantages enjoyed by the U.S. tanning industry, leather exports to the burgeoning foreign leather products industries could have been expected to increase substantially during this

period. Leather exports, in fact, have increased significantly since 1975. As shown in Table 3, U.S. leather exports rose in value from $142 million in 1975 to $275 million in 1981, declined to $210 million in 1982, and then rebounded to $252 million in 1983. But export sales did not replace declining domestic demand for leather because of the interference of foreign governments in the raw hide and leather markets.

In the raw hide markets, countries with substantial hide supplies have effectively closed their borders to hide exports. India has barred the export of goatskins. More significantly for this investigation, Brazil and Argentina have forbidden or seriously impeded the export of cattlehides through embargoes and export tariffs for more than a decade.

These artificial reductions in available world raw material supplies have had two injurious effects on the U.S. tanning industry. First, these governments have insulated their respective markets from world demand. By limiting demand pressure on their hide pools, they have reduced raw material prices to their local tanning and thus leather products industries. Leather and leather products are then exported to the United States and third country markets causing further erosion in the domestic and foreign markets of U.S. tanners. The remarkable increase in U.S. leather products imports has already been discussed. Petitioners' prehearing brief filed with the ITC also relates the growth in imports of leather shoe uppers, which further erodes the domestic footwear market available to U.S. tanners. Table 3 shows that even U.S. imports of leather have grown substantially since 1975.

Second, the reduction in the available supply of cattlehides by Brazil and Argentina has caused world demand to focus on the United States. TCA estimates that the United States accounts for approximately 75 percent in world trade in cattlehides. As shown in Table 4, roughly 55 to 60 percent of total domestic cattlehide supply has been exported annually since 1975. The major destinations of these exports included the

sources of a majority of U.S. nonrubber footwear imports in 1983: Korea, Taiwan and Italy. See Table 5.

This demand pressure has increased the price of cattlehides in the United States, and thereby decreased the competitiveness of the U.S. tanning industry. These price effects became particularly acute in 1979, when the estimated total slaughter reached its lowest level during the period, 69 percent of the total slaughter was exported, and cattlehide prices rose to an historic peak. Further, massive exports of U.S. cattlehides have allowed countries without commercially significant indigenous hide supplies to increase local value added and create enormous leather products industries.

With respect to leather markets, barriers to trade have prevented and/or seriously hindered the growth of U.S. leather exports. Taiwan assesses duties and taxes amounting to approximately 68 percent of CIF value on leather imports. Korea levies a tariff of 30 to 40 percent ad valorem on finished leather imports. Japan has established a quota on leather imports, and levies duties of 20 percent ad valorem. Even the European Community, Spain and Canada maintain tariff schedules on leather that are higher than duties assessed on leather imports into the United States.

Under the twin bludgeons of eroding domestic markets and artificial interference with foreign raw material and leather markets, the U.S. tanning industry has declined substantially over the last decade. The value of domestic shipments, though increasing in nominal terms, declined in 1972 constant dollars from $912.2 million in 1977 to $732.0 million in 1982, before rebounding slightly to $769.0 million in 1983. Production, shipments and employment also have fallen. As shown in Table 6, total production fell from a peak of 23.5 million equivalent hides in 1976 to just over 18.6 million equivalent hides in 1983. Shipments declined from 23.3 million equivalent hides in 1976 to 18.4 million equivalent hides in 1983. Total employment dropped from 23,000 workers in 1977 to 18,500 workers in 1983, and the number of production and related

workers fell from 19,600 workers to 15,500 workers over the same period. Given the ever-increasing influx of leather products imports and the effective closure of export markets, these seriously declining trends can only be expected to continue.

III. SURGING FOOTWEAR IMPORTS HAVE HAD AN INJURIOUS EFFECT ON THE U.S. TANNING INDUSTRY

The onslaught of footwear imports particularly has caused serious injury to the domestic leather tanning industry. As noted above, fully 60 percent of all finished leather consumed in the United States in 1983 was consumed by the nonrubber footwear industry. Even if other leather products industries enjoyed rising production and shipments, the destiny of the domestic tanning industry would remain directly and unmistakeably linked to that of the U.S. nonrubber footwear industry.

As shown in Table 7, U.S. production and shipments of all cattlehide leather (which is the predominant type of leather used in footwear production) has declined considerably since 1975. From a peak of 20.2 million equivalent hides in 1976, production declined in every year until 1981. Cattlehide leather production fell again in 1982, but then rebounded slightly in 1983. Shipments followed an identical trend. In 1983, both production and shipments were nearly five million equivalent hides below levels attained in 1976.

Within footwear leather categories, moreover, production and shipments have generally declined sharply since 1975:

- Production and shipments of shoe upper leather increased slightly from 1975 to 1976, and then fell steadily to nadirs in 1979. Although production and shipments in this category grew in 1980 and 1981, both measures fell again in 1982 and 1983. Production and shipments in 1983 stood more than six million sides below levels attained in the peak year of 1976. See Table 8.

- Production and shipments of dress shoe upper leather followed an identical trend. In 1982, both measures were more than four million sides less than levels in 1976. See Table 9.

- Production and shipments of work shoe upper leather fell steadily from 1975 to 1983 with the sole exceptions of production in 1981 and 1983, which essentially remained stagnant from the prior year levels. In 1983, production and shipments were approximately 1.3 and 1.4 million sides less than in 1975. See Table 10.

- Production and shipments of lining leather fell precipitously during the period. From the peak year of 1976, production and shipments in this category dropped from 1.3 million sides to less than 500,000 sides in 1983. See Table 11.

- Although separate statistics on sole leather production and shipments are not maintained, the U.S. Industrial Outlook reports that sole leather consumption fell by 10 percent in value from 1982 to 1983.

Within the critical footwear leather category, as well as overall, the domestic tanning industry has declined substantially since 1975. The erosion of domestic markets by surging imports has been particularly acute in the nonrubber footwear sector, which is the most significant consumer of U.S. leather production. The intervention by such footwear exporting countries as Brazil, Taiwan and Korea in the hide and/or leather markets has prevented U.S. tanners from utilizing their competitive advantages and following footwear production offshore. Absent a period of import relief, or the termination of unfair foreign governmental intervention in their hide and leather markets, these dual pressures promise to continue unabated, and the domestic tanning industry will remain on its downward course.

IV. CONCLUSION

TCA fully supports petitioners' request for a five-year period of import relief for the U.S. nonrubber footwear industry. Because of its primary dependence on the footwear industry, the economic viability of the domestic tanning industry hinges largely on the continued viability of the footwear industry. TCA appreciates the opportunity to provide its comments to the subcommittee in support of import relief sought by the domestic nonrubber footwear industry.

Table 1

CATTLE POPULATION OF
SELECTED COUNTRIES AND REGIONS,
1980-1983

(1,000 head)

Country	1980	1981	1982	1983 1/
United States	111,192	114,321	115,604	115,199
U.S.S.R.	115,100	115,057	115,919	117,186
Argentina	58,938	58,807	57,948	58,000
Brazil	91,000	93,000	93,000	93,000
Mexico	33,000	34,000	34,700	33,873
Western Europe 2/	93,229	92,551	91,796	92,869
Eastern Europe 3/	38,336	37,735	37,838	37,131
India	241,000	245,550	246,610	247,650
Taiwan	143	134	134	127
Japan	4,248	4,385	4,485	4,590
Korea	1,762	1,604	1,506	1,754
Phillipines	4,753	4,704	4,760	4,864

1/ Preliminary figures.

2/ Includes Belgium, Luxembourg, Denmark, France, West Germany, Greece, Ireland, Italy, Netherlands, United Kingdom (European Community Members), Austria, Finland, Portugal, Spain, Sweden and Switzerland.

3/ Includes Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania and Yugoslavia.

Source: Tanners' Council of America; based on U.S. Dep't of Agriculture, Foreign Agricultural Service, data.

Table 2

U.S. IMPORTS OF LEATHER PRODUCTS, BY VALUE, 1975-1983

($1,000)

Year	Nonrubber Footwear	Gloves 1/	Baseball Gloves	Wearing Apparel	Handbags & Purses 2/	Luggage & Flat Goods 3/	Other (Incl. Belts)	Total Leather Products
1975	1,132,228	36,554	15,966	154,263	124,776	89,486	41,823	1,595,096
1976	1,448,561	46,626	29,415	236,587	185,000	106,754	64,045	2,170,988
1977	1,599,170	67,693	37,879	204,135	207,247	190,283	81,032	2,387,094
1978	2,057,351	89,360	38,794	318,269 4/	310,382	266,184	112,763	3,193,103
1979	2,429,284	120,127	39,628	257,955 4/	299,806	295,557	121,432	3,563,789
1980	2,298,308	102,709	50,270	170,907 4/	350,562	321,789	142,810	3,437,355
1981	2,480,984	92,103	49,448	207,067 4/	406,230	384,675	164,561	3,785,068
1982	3,077,409	90,853	43,418	251,969 4/	409,624	439,096	163,955	4,476,323
1983	3,661,935	98,954	36,060	271,581	449,908	523,297	192,259	5,233,994

1/ Includes leather and combination.

2/ Includes leather, vinyl and other materials.

3/ Includes leather and other materials.

4/ TSUS category change March 1, 1977. Comparison with prior year data incorrect.

Source: Tanners' Council of America; based on U.S. Department of Commerce data.

Table 3

U.S. IMPORTS AND EXPORTS OF LEATHER, BY VALUE, 1975-1983

($1,000)

Year	Imports	Exports
1975	87,953	141,715
1976	180,502	139,265
1977	155,934	149,787
1978	222,006	194,160
1979	284,348	250,420
1980	217,316	271,944
1981	354,035	275,332
1982	318,049	210,000
1983	298,405	252,469

Source: Tanners' Council of America; based on U.S. Department of Commerce data.

Table 4

U.S. EXPORTS OF CATTLEHIDES:
TOTAL SLAUGHTER, TOTAL EXPORTS
AND PERCENT EXPORTED,
1975-1983 1/

(1,000 units)

	Estimated Total Slaughter	Total Exports	Exports As Percent of Slaughter
1975	41,800	21,269	50.9%
1976	43,582	25,270	58.0%
1977	42,770	24,489	57.3%
1978	40,404	24,791	61.4%
1979	34,400	23,741	69.0%
1980	34,520	19,512	56.5%
1981	35,640	19,703	55.3%
1982	36,600	23,175	63.3%
1983	37,400	21,861	58.5%

1/ Does not include U.S. imports of cattlehides and re-exports, which are relatively insignificant. In 1983, cattlehide imports amounted to 664,000 hides; re-exports equalled 8,000 hides.

Source: Tanners' Council of America; based in part on U.S. Department of Commerce data.

Table 5

U.S. EXPORTS OF CATTLEHIDES,
BY SELECTED COUNTRY, 1975-1983

(1,000 pieces)

Year	Canada	Mexico	Italy	Romania	Taiwan	Japan	Korea	Other
1975	805	2,362	565	1,226	749	7,108	2,203	6,251
1976	1,057	1,708	1,561	1,651	818	9,356	3,270	5,849
1977	859	1,967	1,048	1,472	843	8,425	3,611	6,264
1978	1,093	1,938	1,284	1,942	1,018	8,797	3,720	4,999
1979	1,244	2,428	2,248	1,317	955	7,396	2,528	5,625
1980	1,046	1,972	690	1,046	1,285	7,476	2,653	3,344
1981	1,212	2,485	486	680	1,312	7,512	3,579	2,437
1982	1,041	1,882	1,395	939	1,740	6,469	4,572	5,137
1983	1,235	1,296	823	1,318	2,433	6,413	4,635	3,708

Source: Tanners' Council of America; based on U.S. Dep't of Commerce & U.S. Dep't of Agriculture data.

Table 6

U.S. TOTAL LEATHER PRODUCTION
AND SHIPMENTS, 1975-1983 1/

(1,000 equivalent hides)

Year	Production	Shipments
1975	21,894	22,320
1976	23,526	23,332
1977	21,528	21,669
1978	20,599	20,089
1979	18,170	18,051
1980	17,600	17,636
1981	19,184	18,958
1982	18,229	18,035
1983	18,610	18,470

1/ Includes cattle, calf, kip, goat, sheep, lamb, cabrettas, pig, horse and kangaroo leathers converted to hide basis. Non-cattle leather production estimated from historical trends on cattlehide equivalent basis.

Source: Tanners' Council of America.

Table 7

U.S. PRODUCTION AND SHIPMENTS OF ALL CATTLEHIDE LEATHER, 1975–1983

(1,000 equivalent hides)

Year	Production	Shipments
1975	18,830	19,197
1976	20,231	20,065
1977	18,512	18,637
1978	17,371	17,276
1979	15,041	14,932
1980	14,790	14,816
1981	15,520	15,461
1982	15,028	15,053
1983	15,430	15,427

Source: Tanners' Council of America.

Table 8

U.S. PRODUCTION AND SHIPMENTS
OF SHOE UPPER LEATHER, 1975-1983

(1,000 sides)

Year	Production	Shipments
1975	26,081	26,417
1976	27,517	27,146
1977	24,358	24,651
1978	23,046	22,865
1979	19,647	19,525
1980	21,039	21,133
1981	21,760	21,610
1982	20,921	21,003
1983	20,865	20,867

Source: Tanners' Council of America.

Table 9

U.S. PRODUCTION AND SHIPMENTS OF DRESS SHOE UPPER LEATHER, 1975–1983

(1,000 sides)

Year	Production	Shipments
1975	21,149	21,381
1976	22,614	22,311
1977	20,273	20,508
1978	19,174	19,119
1979	16,111	16,113
1980	17,616	17,808
1981	18,438	18,417
1982	17,956	18,117
1983	17,884	18,027

Source: Tanners' Council of America.

Table 10

U.S. PRODUCTION AND SHIPMENTS
OF WORK SHOE UPPER LEATHER, 1975-1983

(1,000 sides)

Year	Production	Shipments
1975	3,826	3,926
1976	3,566	3,498
1977	3,022	3,078
1978	3,043	2,928
1979	2,785	2,751
1980	2,693	2,693
1981	2,700	2,671
1982	2,503	2,526
1983	2,521	2,480

Source: Tanners' Council of America.

Table 11

U.S. PRODUCTION AND SHIPMENTS OF LINING LEATHER, 1975-1983 1/

(1,000 sides)

Year	Production	Shipments
1975	1,106	1,110
1976	1,337	1,337
1977	1,063	1,065
1978	829	818
1979	751	661
1980	730	632
1981	622	522
1982	462	360
1983	460	360

1/ Estimated from historical data and trends.

Source: Tanners' Council of America.

STATEMENT OF RICHARD W. SHOMAKER, PRESIDENT, BROWN SHOE CO., ST. LOUIS, MO

Senator DANFORTH. Mr. Shomaker, would you like to begin?

Mr. SHOMAKER. Good morning. Mr. Chairman and members of the committee, I am Dick Shomaker, president of Brown, a member company of Brown group based in St. Louis. I have been in the shoe business for about 25 years. I have been president of Brown Shoe since 1972.

Brown employs about 12,000 in factories in Missouri, Arkansas, Illinois, Tennessee, and Mississippi. Brown is the largest domestic producer of footwear. And I guess that we are one of those firms that would have been called "healthy." Certainly our bottom line is better than many of the companies in the industry.

But if I didn't think we had been injured by imports, I wouldn't be here. In the past number of years, we have concentrated on improving the efficiency of the Brown plants. But, unfortunately, the increased business that should have come from our greatly improved productivity just hasn't materialized. And so I know a group of people in at least five plants that wouldn't think Brown is very healthy because these are the plants we have closed since relief. Brookfield, MO, in 1982; Leachville, AR, in 1983; Piggott, AR, in 1984; Ironton, MO, will be closed next month; and Pittsfield, IL, will be closed this month. We have a number of people who I don't think would think that Brown is particularly healthy.

Now our performance in improving productivity in the use of technology, I think, has been excellent. All we are missing is a balanced environment here to utilize it. We have used extensively, and invested extensively in computers both for design of our footwear and for the manufacture of our footwear. I think, in interest of time, that I can just tell you that in the period 1975 through 1983 we have increased on an annual basis our productivity about 5 percent per year.

In that same timeframe, our employees' earnings have improved about 7 percent a year. But with that, we have been able to hold our labor cost to about a 2-percent increase per year, which is certainly well under inflation in this country.

I think that even with all of these measures that we have taken and the money that we have invested, we have still had to close plants. Now during our testimony at the ITC, we outlined a game plan which the companies in the industry were prepared to follow. I would like to share it with you briefly.

If the ITC finds injury and there is a meaningful period of relief, the domestic industry would use the relief period to achieve:

One, significant reductions in the costs of producing footwear domestically, using the technology that is here or that is coming, we would have a consumer focused marketing that provides U.S. manufacturers with superior knowledge of the needs and wants and purchasing patterns of U.S. consumers.

The system would include management skills which provide superior leadership for the domestic companies, and a quality of product which is superior in design, appearance, and performance.

Finally, consumer service, which improves communication between retailers, manufacturers and suppliers with the goal of es-

tablishing more rapid and accurate servicing of retailer and consumer requirements.

Now some of the companies or most are using some of these parts of this system. Our industry association has been very helpful in attempting to get the industry pulled up and improved. We are helped by the fact that we are closer to the customer than the importers.

I would say, though, that none of these steps will come to complete fruition or would materialize without some kind of import relief. There is a lot going on in this industry and a lot more can go on. But we do need some relief from the unbelievable onslaught that we are seeing here in the last year or so, year and a half.

Thank you.

[The prepared statement of Mr. Shomaker follows:]

STATEMENT OF

RICHARD W. SHOMAKER

PRESIDENT

BROWN SHOE COMPANY

Mr. Chairman and Members of the Subcommittee:

My name is Richard W. Shomaker. I am president of the Brown Shoe Company, a member company of the Brown Group, Inc., which is a publicly-held corporation. I have been affiliated with Brown Shoe for more than 25 years, in both manufacturing and management, and have been president of the company since 1972. Brown Shoe is headquartered in St. Louis, Missouri and manufactures full lines of men's, women's and children's shoes. The company employs approximately 12,000 people at 33 factories in Arkansas, Missouri, Tennessee, Illinois and Mississippi.

In terms of its domestic manufacturing operations, Brown Shoe is today the largest producer of nonrubber footwear in the United States. I imagine that we are also one of those firms in the industry that some have called "healthy." Certainly the bottom line on our profit and loss statement is better than that of many of the firms in the nonrubber footwear industry; but if I thought my company hadn't been seriously injured by imports, I wouldn't be here.

I know of a group of people in Leachville, Arkansas and Ironton, Missouri that would find it very hard to believe that Brown is "healthy." Those people are former Brown employees, the victims of our most recent set of plant shutdowns.

I have heard economists, financial analysts and other such types who don't often have to worry about whether their jobs will be

there tomorrow call such factory closures the "rationalization of production" or the achievement of "more efficient operations." I think I would find support in Leachville and Ironton when I say there was nothing "irrational" or "inefficient" about those manufacturing operations. The workers were good, hard-working people, the most efficient shoemakers in the world, and they made a product which we modestly considered to be excellent. But we had to close our plants in Leachville and Ironton in order to keep our remaining plants operating at a viable level of capacity.

Over the past few years, the overall efficiency of Brown's manufacturing operations has continued to increase, but the increased pairage that should have accompanied our substantially improved productivity has not materialized. With import penetration running at between 65 to 70 percent, it is not hard to see why. It's easy enough to calculate that foreign producers have taken several hundred thousand pairs of shoes away from Brown Shoe; but you have to spend an afternoon in Leachville and Ironton to understand that imports have also taken something much more important -- the livelihoods of honest, hard-working people. When you take that away, whole towns crumble.

I find it hard to believe that when Congress enacted section 201, it intended industries and workers experiencing this kind of injury to have no viable claim for import relief. We are reminded that workers, too, were among the class that Congress said could petition for import relief -- and not just the defeatist dole we

euphemistically call "adjustment assistance," but import restrictions that allow an industry to stay on its feet to keep people working. The law primarily envisions the preservation of domestic productive facilities and employment, not profits. The law seeks to preserve, to the largest extent possible, America's manufacturing base. That doesn't mean that every industrial dinosaur that lumbers along is entitled to protection from the natural forces of evolution. I hope you agree with me, though, that section 201 is precisely designed to aid industries that have the realistic ability to achieve lasting competitiveness but which have been frustrated in their attempts to achieve that competitiveness by a barrage of imports.

I'd like to spend the balance of my remarks this morning telling you why I believe this industry is not a dinosaur and is an appropriate candidate for import relief.

Brown, like many other firms in the industry, has had a longstanding commitment to increasing productivity through technological innovations and development. The record of the ITC's proceedings in the prior section 201 and 203 cases is filled with information on the efforts of my company and the industry as a whole to improve productivity through the use of advanced technology and materials. We made the most of the limited period of import relief by making a number of important technological improvements. Those efforts are continuing, but if the competitive environment had allowed us to make more, the people of Leachville might still be working today. The crucial point to realize, though, is that the technology is there and that it can be the answer; all that is absent

is the balanced competitive environment that would permit that technology to be exploited.

The complexity and diversity of shoemaking processes and materials seemed only a few years ago to be a stumbling block to increased use of technology and automation, but the rapid introduction of microprocessors and computers has surprised even the most skeptical technical observers of the shoe industry. I'll examine two key areas that have significantly impacted our shoe development and manufacturing processes.

Anyone who has visited Brown Shoe Company's computer-aided design center would have to be impressed by the developments taking place there -- developments not even envisioned five or six years ago. There our technical personnel can design a realistic-looking shoe last, unit sole or heel on a computer screen in color, examine it from every angle by turning the object around on the screen, modify it until the designer is satisfied with it, and then with tapes or instructions generated by the computer instruct a milling machine in a remote location to duplicate the image in wood, or plastic, so that a model shoe can be made with the component parts pictured on the screen.

The technology for the design of shoe upper parts using computer aids is in place in a number of shoe manufacturers in the United States, and is extensively used by Brown. In this instance, we use 2-dimension CAD systems to design on computer screens, and these designs are graded for each size and width, passed by the computer to a laser cutter, which automatically generates all of the engineering parts for a complete set of dies to cut the upper parts of the

shoe. Sophisticated engineering of upper design and construction by the computer, while retaining the aesthetic appeal of the footwear, saves a significant amount of material and streamlines upper assembly. A dramatic reduction of lead time is just one of the many benefits of computer-aided design.

In another area, Brown has moved strongly to improve the efficiency of our upper assembly operations. Upper assembly operations are the most labor-intensive in footwear production, typically accounting for more than 25 percent of direct labor costs. Accordingly, the use of labor-saving technology in the upper stitching room can provide a manufacturer with substantial cost savings.

A shoe worker using a traditional sewing machine typically has to engage in a large number of skilled hand movements during the course of a stitching operation. Not only is the actual stitching of the required pattern very tedious and time-consuming, but considerable time is spent between operations -- putting the material into the machine, positioning the needle, pulling the thread, trimming the thread when the job is done. At Brown, we have adopted a number of technologies which substantially improve stitching operations and allow our employees to perform these tasks in less time and with uniformly consistent quality.

One of these devices is known as a "cam-controlled automatic bar machine." In shoemaking parlance, "barring" is a technical term generally applying to a reinforcing stitch -- the stitching around the buttonhole on a shirt is an example which most would be familiar with. Barring machines in footwear manufacture are also used for a

variety of patterned stitching work -- for example, ornamental stitching on western boots. As you might imagine, such close work requires a very high level of skill and a large amount of time if done with conventional sewing machines.

Many years ago, we adopted cam-controlled automatic bar machines to reduce the time and skill levels needed to accomplish this operation. Basically, these machines use a "cam" -- a deeply etched steel pattern -- as the mechanical guide for the stitching operation. The particular design milled into the cam is mechanically traced and transferred to the needle, which automatically produces a stitch pattern or other design of consistent quality in a fraction of the time that it would take to make it by hand. Using these machines has increased our productivity by 40 percent and reduced our labor cost by about a third over traditional, non-automatic stitching methods.

We estimate that the payback on some of these cam-controlled machines has been a matter of one working month. The machines have paid for themselves many times over, years ago; the only continued cost is new cams and the different clamps that are needed for different types of work. However, this one-month figure is based on intensive utilization of the cams. We have engineered many of our shoe patterns to use the same sized and shaped design on left and right shoes over a complete size run. We have then catalogued the styles of design cams we own, enabling our stylists to take advantage of them as new shoes are styled and patterns graded. The cams are kept in a library for repeated re-use.

The disadvantage of steel cam-controlled machines is the delay and cost of obtaining the initial cam for a new design and the lack of flexibility to use the same design on more than one size or on styles with different shaped designs for left and right shoes. Moreover, the larger and more complicated design stitches are often difficult or impractical to reproduce on steel cams. It is also usually not practical to dedicate a machine and floor space to stitch only left feet or selected size groups.

In recognition of this, we decided that for certain operations, we were going to need machines with more versatility. The solution for us was to buy a number of automatic stitching machines known as "Flexitackers." Instead of being driven by a steel cam, the Flexitacker controls the stitch design with a programmed "prom" -- to the layman, a silicon chip. Unlike a mechanical cam, these microprocessors can guide the needle through a number of separate stitching designs. This provides the ability to use one machine on several styles, design sizes, and left and right feet. Because we are able to make our own proms in-house, we can have a new design on a machine ready to sew the same week the need is identified. We often use two machines in tandem on shoes when the sewing time allows the operator to unload and reload the second machine.

Since the larger and more complicated designs are difficult or impractical to reproduce on steel cams, we generally use our Flexitackers for this type of production. The productivity increase is even greater than for cam-controlled machines, averaging about 50

percent in comparison to conventional, non-automatic stitching machines. The direct labor cost savings average around 47 percent and the payback for the cost of the microprocessor, the clamps, and other accessories needed to produce each design can be as short as a week. Again, that payback figure does not include the cost of the Flexi-tackers themselves, which has been returned months ago.

Finally, Brown has also introduced a large number of numerically-controlled stitchers. These sewing machines are controlled by computer tape, rather than by a silicon chip, and offer the maximum in versatility. Some of our numerically-controlled stitchers have automatic pallet changing ability -- the work is inserted into the machine automatically rather than manually by the operator. This saves considerable time and allows the machine to continue stitching even while the operator is tending another machine. We estimate that these numerically-controlled machines permit 40 percent improvement in productivity and 30 percent improvement in labor cost. When they are used for intricate designs, such as those on western boots, they provide even greater savings.

Although all of these automatic stitchers have substantially improved our productivity and reduced our labor costs, there are many stitching operations that just cannot be done on a fully-automated stitcher. For these operations, we have purchased and installed over 700 semi-automatic machines with needle positioners and thread pulling and clipping mechanisms. Where semi-automatic equipment appropriate for certain operations was not available on the market,

we have been able to work with a supplier to develop kits that have allowed us to retrofit our existing machines. Together, our semi-automatic stitchers average a 25 percent increase in productivity and a 20 percent savings in direct labor costs over a conventional sewing machine, with an average payback of 2.2 years.

I hope this explanation of some of the particular improvements we have made in our stitching room operations has let you see the considerable cost savings which can be achieved with the use of new technology. To give you an idea of the collective effect of these improvements, here are the bottom line figures. As a result of our improvements in the fitting room and the multitude of other changes we have made throughout our shoe assembly and component plants, we have been able to increase our pairs per operator per day by over 5 percent per year during the period 1977 through 1983. Our factories today use 18 percent less energy to produce a pair of shoes than they did in 1973. We have also managed to increase our employee wages while containing our direct labor costs per pair of shoes. Using 1975 costs as an index, our employees' wages have increased at an average rate of 7.1 percent annually, but our average rate of increase in direct labor costs has been held to two percent per year.

Still, we've had to close plants like Leachville and Ironton. With a meaningful period of import relief, I think the chance of that happening again will be greatly reduced. More technology is on the way, and with a good, five-year breathing spell, Brown and other members of the industry will be able to lay it in and position themselves very well for the long haul. I want to emphasize again that an industry that has had the kind of assault that we've had, needs relief, deserves relief, and will improve its competitiveness with relief.

Thank you.

STATEMENT OF DAN MUNRO, PRESIDENT, MUNRO & CO., HOT SPRINGS, AR, AND CHAIRMAN, FOOTWEAR INDUSTRIES OF AMERICA

Senator DANFORTH. Mr. Munro.

Mr. MUNRO. Good morning. My name is Don Munro. I'm the recently elected chairman of the Board of Footwear Industries of America. And I'm also president of Munro and Co., a privately held, medium-sized manufacturer of nonrubber footwear, based in Arkansas.

We presently operate 5 manufacturing plants and a satellite cutting and fitting plant, and employ a total of about 2,000 workers, with between 200 and 600 employees in each plant.

Most of our plants are in small, rural communities where we are the major employer.

Munro currently produces approximately 50 basic styles of leather casual footwear for men, women and children. We sell our products to the biggest and best retail chains, such as Sears, J.C. Penney, Thom McAn, Edison Brothers, Kinney and Wohl Division of Brown Shoe Co. We also introduced a branded line of casual shoes under the Munro label last year.

I would like to describe this morning a few of the changes that Munro & Co. has gone through over the past few years as import competition has increased. In recent memory, the period of the OMA's, between 1977 and 1981, was our best period from the standpoint of production, sales, and profits. Since the termination of the OMA's, Munro's performance has steadily declined. Between 1980 and 1983, our production and sales declined by about 10 percent and our profits declined almost 50 percent. We are currently operating at production, sales, and profit levels that I do not consider healthy.

Munro and the rest of the U.S. nonrubber footwear industry have not benefited from that growth in the market that retailers are enjoying. All of that growth has been captured by imports.

In one case, just very recently, we lost a major workshoe supply contract for Sears Roebuck after producers in Czechoslovakia offered to supply our style at a price that barely covers our cost of materials. Obviously, the selling price of their shoe was not fairly reflective of the actual cost of producing it.

In addition, we have noticed a very pronounced tendency in imports to concentrate on the high volume, basic shoe styles. This has forced Munro to change styles frequently to maintain our production volume. But these smaller production runs are much less efficient and entail greater production costs.

We have managed to compensate for these cost increases through the adoption of a number of advanced manufacturing technologies.

But despite the investment of over $2 million in capital outlays and despite the cost reductions we have achieved, Munro has still found itself with declining production, shipments, and profits over the last 3 years. More obviously needs to be done; but with a 46-percent drop in profits since 1980, I'm not going to find the money needed to make those changes unless there are some pretty radical changes in the competitive environment.

We cannot invest if we have no hope of growth. Banks will not lend us the money, and I cannot generate it myself.

Speaking for a minute as a U.S. citizen, if I may, I am proud that our military forces currently move on American made footwear. One of our own plants produces 40 percent of the safety shoes bought by the defense supply agency. If that plant, and a handful of other plants using that construction are forced out of business and the Government Procurement Office turns to the suppliers of similar civilian footwear, our soldiers will be wearing boots made in Czechoslovakia and Korea. That's a worrisome note on which to close, but it's one that I am very concerned about.

I thank you for your attention.

Senator DANFORTH. Thank you.

[The prepared statement of Mr. Munro follows:]

STATEMENT OF DONALD MUNRO

CHAIRMAN, FOOTWEAR INDUSTRIES OF AMERICA, INC.

AND

PRESIDENT, MUNRO & CO., INC.

Good morning Mr. Chairman and Members of the Subcommittee:

My name is Donald Munro. I am the newly-elected Chairman of the Board of Footwear Industries of America, Inc. I am also President of Munro & Company, a privately-held, medium-size manufacturer of nonrubber footwear based in Arkansas. We presently operate five manufacturing plants and a satellite cutting and fitting plant. Munro employs a total of about 2,000 workers, with between 200 and 600 employees at each of our plants.

I think the demographics of Munro are probably fairly representative of the industry as a whole. Four of our plants are located in small towns with populations between 1,000 and 7,000; our fifth plant -- not our largest one -- is located in a city of 35,000. Obviously, we figure as a major employer in the small, rural communities where we are located. Our Mount Ida plant is the only industrial employer in the county in which it is located. Approximately 75 percent of our employees are women, many of them the wives of farmers. The employment we provide these women makes a substantial contribution to the welfare of the agricultural community in our area. A lot of farm families depend on the second income earned in our factories. When a crop fails -- as they often have in the last few years -- the wages earned in our factories are often the primary source of income for these people.

Munro currently produces approximately 25 basic styles of leather casual footwear for men, women and children. We sell our product to the biggest and best retail chains, such as Sears, J.C. Penney, Thom McAn, Edison Brothers, Kinney and Wohl Division of Brown

Shoe Company. We also introduced a branded line of casual shoes under the Munro label last year.

Our shoes are priced to retail in the medium-price range: our factory prices are between $6 and $25, and the shoes normally sell in the stores from $15 to $60, with the average being about $30. It is interesting to note that one of our most basic products -- women's loafers -- were sold 20 years ago for $2.35 from the factory and retailed at $4 for a retail mark-up of about 41 percent. We sell the same shoe today for $10.85 and it is retailed at $28.00, for a 61 percent mark-up. Since manufacturing costs have actually decreased as a percentage of the retail selling price by about a third, it seems less than fair that Munro and other domestic manufacturers are being accused of an inability to provide the American consumer with a good product at an affordable price. Obviously, in this case, the retailer's mark-up has had a greater effect on the price to the consumer than our wholesale price increases.

I'd like to describe this morning a few of the changes that Munro and Company has gone through over the past few years as import competition has increased. In recent memory, the period of the OMAs between 1977 and 1981 was our best period from the standpoint of production, sales and profits. Since the termination of the OMAs, Munro's performance has steadily declined. Between 1980 and 1983, our production and sales declined by about 10 percent, and our profits declined almost 50 percent. We are currently operating at production, sales, and profit levels that I do not consider healthy.

This trend has been particularly hard for me to accept personally. Munro had always been a growth-oriented company, and I firmly

believe that we were as well-positioned as any to continue growing after termination of the OMAs. We had the distribution to accommodate growth, but we have in fact been forced to give up pairage. Even more disheartening is the fact that we have maintained production to the extent we have only because several of our primary domestic competitors -- for example, the manufacturing arm of Melville Corporation -- have ceased production. And all of this has come at a time when apparent domestic consumption is at record levels. Significantly, most large vertically-integrated companies seem to be getting out of manufacturing as fast as they can in order to concentrate on retailing -- companies such as Melville, Genesco, Morse, and others. I can't conceive how these companies can take the position that manufacturers are prosperous or haven't been injured; their own executives have stated publicly that imports are the main reason for closing their plants.

Munro and the rest of the U.S. nonrubber footwear industry have not benefited from that growth in the market that retailers are enjoying; all of that growth has been captured by imports.

As a producer of leather casual footwear, I would estimate that upwards of 80 percent of our shoes compete directly with imports from Korea, Taiwan and Brazil on the basis of style and price. In many cases, Munro has innovated a style and had it "knocked off" in the Far East or elsewhere. In one case, we lost a major workshoe supply contract for Sears just this year after producers in Czechoslovakia offered to supply our style at a substantially lower cost -- in fact, a price that barely covered our costs of materials. Obviously, the

selling price of this shoe was not fairly reflective of the actual cost of producing it.

In our own experience, we have noticed a very pronounced tendency of imports to concentrate in the high-volume, basic shoe styles, forcing Munro and manufacturers like us to change styles more frequently and to produce a greater variety of styles at any given time to keep our factories full. For example, 20 years ago one of our plants made approximately 13,000 pairs of women's loafers per day in three basic styles. That same plant now produces only 8,000 pairs of shoes, and it makes 20 different styles. The only way that Munro has been able to maintain production volume was to broaden our product lines. The smaller production runs, however, are much less efficient and entail greater production costs.

Despite the inefficiency inherent in these small production runs, we have managed to compensate for the cost increases involved by the adoption of a number of advanced manufacturing technologies. For example, one of our plants introduced injection molding equipment in 1968 at a cost at the time of over one-half million dollars. That injection molding capability gave us the ability to reduce substantially the costs of our bottoming operations. Since 1979, we have invested approximately $200,000 per year in new molds for this equipment in order to implement style changes. We have also invested heavily in computer stitching, with most of our long-term leases of these machines originating in 1980 and 1981. We also introduced almost $300,000 worth of new lasting machinery in 1981 which permitted a significant reduction in our unit costs. These are only the largest of the many investments we have made over the past four years.

Despite this significant outlay of capital and despite the cost reductions that we have achieved, Munro has still found itself with declining production, shipments and profits over the last three years. More obviously needs to be done; but with a 46 percent drop in profits since 1980, I am not going to find the money needed to make those changes unless there are some pretty radical changes in the competitive environment. We cannot invest if we have no hope of growth. Banks will not lend us the money, and I cannot generate it myself.

Munro could very much use 150 automatic backstitch and needle-positioning sewing machines. Using them could save us 15 percent of the labor cost we incur using our present equipment. I will need $750,000 from somewhere to buy them. Ten pattern skivers could potentially save me $20,000 per year, but there's a $70,000 up-front cost. Automatic roughing and box-making machines, a new model heel attaching machine, a pattern grader -- all of these would save Munro substantial amounts of money in the long run if we could simply afford the initial capital investment. Frankly, I cannot see the feasibility of such investment unless the industry receives some kind of meaningful import relief. If such is not forthcoming, I am afraid I am not very optimistic about the future for Munro or our industry as a whole.

Speaking for a minute as a U.S. citizen, I am proud that our military forces currently move on American-made footwear. One of our own plants produces 40 percent of the safety shoes bought by the Defense Supply Agency. If that plant, and a handful of other plants

using that construction, are forced out of business, and the Government Procurement Office turns to the suppliers of similar civilian footwear, our soldiers will be wearing boots made in Czechoslovakia and Korea.

Logistics aside, I do not think our country can afford the human misery that would result from the loss of this industry. I know the communities in Arkansas where we are located certainly could not afford a shutdown of our plants. I received a rather poignant reminder of this recently when the employees at our Mount Ida facility presented me with some tokens of their appreciation for the jobs our plant has given them. At their surprise presentation ceremony, Juanita Johnson, a stitcher at our Mount Ida factory for 13 years, stepped out of the crowd to say a few words that I would like to share with you all now. She said:

> Each time another anniversary of the opening of Mount Ida Footwear rolls around, I'm reminded again of the "good old days" before we had a Mount Ida Footwear Company.
>
> In those "good old days," when you drove around the countryside, you would usually see only one old beat-up pickup truck that would barely run at a house. These days there are from two to six rigs parked at almost every house. Most houses were in dire need of repair because it took all a man could make to keep the family going. In those days, when you were finally prosperous enough to buy a wringer-type washing machine, it was put out on the front porch so that the neighbors could see and be envious.
>
> Women were willing to work but there was little opportunity -- cafe work for less than minimum wage or helping your husband in the billet woods.

When you stop and think of what one employee has been paid, multiplied by the number of employees, multiplied by the number of years the company has been in operation, you suddenly realize that the economic impact that Mount Ida Footwear Company has had on this area is mind boggling!

Mr. Munro, as far as I'm concerned, you are nine feet tall and bulletproof! I'm very grateful.

Needless to say, I'm also very grateful to have such loyal employees. I think they deserve to be kept working, and if we are given just a little bit of help, I'm convinced we can keep them working for a very long time.

Thank you for your attention.

STATEMENT OF SAM DELFINO, VICE PRESIDENT AND DIRECTOR, MANUFACTURING AND PROCESSING DEPARTMENT, UNITED FOOD & COMMERCIAL WORKERS INTERNATIONAL UNION, WASHINGTON, DC

Senator DANFORTH. Mr. Delfino.

Mr. DELFINO. Thank you, Mr. Chairman, members of the committee. My name is Sam Delfino. And with me today is Mr. Stanley Nehmer of the Economic Consulting Services who will assist me in answering any questions that may arise.

I am here today on behalf of my own union, the United Food & Commercial Workers International Union, and on behalf of the Amalgamated Clothing and Textile Workers Union, both of whom are members of the AFL-CIO. Together, we represent approximately 50 percent of the workers that are employed by the domestic nonrubber footwear industry.

Imports have captured 70 percent of our market as of the first 2 months of 1984. Last year, it was 64 percent. Imports have meant the loss of tens of thousands of jobs in this industry over the past decade. We had more than 200,000 workers in the early 1970's. Employment has since dropped to 131,000.

In the last 3 years, 20,000 shoe workers have lost their jobs and for every three workers employed in the leather products sector, there are two additional workers indirectly employed. This translates into an additional 90,000 jobs which are dependent on this industry's output.

In 1983, 37,000 shoe workers were counted among the unemployed in this country. For the first quarter of 1984, the unemployment rate in the shoe industry was 17.3 percent, while the unemployment rate for all U.S manufacturing registered only 7.8 percent.

This industry is a source of important employment in this country. Jobs in this industry provide entry level employment. In some rural communities, jobs in shoe factories may be the only source of employment.

Many older workers have been employed making footwear for several decades and retraining is not an option for them.

Many workers in this industry are women. They tend to be secondary wage earners and cannot move when the local shoe factory closes, as was so well pointed out early.

Many minorities for whom unemployment rates have been historically high work in this industry. There are fine craftsmen with long years of experience in this industry, but their skills are not going to help them find other jobs.

These workers have paid dearly for years of neglect by different administrations. This administration not only failed to renew this industry's import relief in 1981, and more recently failed to pursue this industry's unfair trade complaint through its section 301 petition, but it has cut trade adjustment assistance to the bone and every other family assistance program as well.

There are other important factors in addition to wage differentials, which are responsible for the ability of imports to compete in our market. There is excess well production capacity for footwear and much of it is directed at the U.S. market because our market is the most open in the world today.

Additionally, the United States must contend with subsidized footwear imports from Spain, Brazil, and others. Irrespective of labor costs, which for U.S. footwear workers are a modest $5.37 an hour, the machineries and technologies available to shoe manufacturers will greatly minimize foreign wage rate advantages. If foreign shoe manufacturers adopt the same machinery, that will be to our advantage because we will be competing against a smaller proportion of labor costs.

There is not much incentive to bring about technology and productivity changes while imports continue to flood our markets. We desperately need a period of import relief so that this industry can continue its restructuring, an undertaking which will be the key to its survival.

And I thank you, Mr. Chairman.

Senator DANFORTH. Thank you, sir.

[The prepared statement of Mr. Delfino follows:]

STATEMENT OF SAMUEL J. DELFINO
ON
THE STATE OF THE U.S. FOOTWEAR INDUSTRY

May 25, 1984

My name is Samuel J. Delfino. I am Vice President and Director of the Manufacturing and Processing Department of the United Food and Commercial Workers International Union, AFL-CIO. The UFCW represents approximately 1.3 million workers, including our members who work in the nonrubber footwear industry and in related industries. Our footwear members fall under the wing of the UFCW's Manufacturing and Processing Department which I head.

I am here today, not only on behalf of my own union, but also on behalf of the Amalgamated Clothing and Textile Workers Union, AFL-CIO. Together, we represent approximately 50 percent of the workers employed by the domestic nonrubber footwear industry.

First, I want to commend Senator Danforth for holding this hearing on the state of the U.S. footwear industry. I am sad to say that the state of the industry is not healthy because of the relentless and burgeoning growth in imports. Unless we get relief from imports soon, I question whether there will be any industry left. I only hope that this hearing's outcome will produce something constructive -- at the very least, some understanding of how we got here and where we are headed.

Since I am the sole representative of the workers in this industry on the panel today, I want to direct my

remarks specifically to the issue of employment in this industry -- its rapid diminishment; who it employs; and the fact that there is ample evidence to suggest that U.S. shoeworkers can compete against imports from low-wage foreign competitors.

Before I discuss these employment issues, however, I want to address the question in the minds of some as to whether or not the U.S. nonrubber footwear industry has or should have a future. The fact that we are here today suggests that there are those in Congress who believe we do have a future, and are concerned about this industry's future. Others may argue that this country no longer needs a shoe industry -- that the U.S. is moving toward a service and high technology economy, and we no longer need a footwear, or a textile, or a steel or an auto industry. These people are wrong. None of our manufacturing industries is now immune from increasing foreign competition -- much of it unfair. A trade deficit of $69 billion last year and an estimated trade deficit of $110 billion this year, attest to that fact. But is this sufficient cause to write these industries off? I think not. And what after all do the service industries and computers serve? They serve a diversified manufacturing base, a base which is rapidly dwindling.

Tens of thousands of jobs have been lost in the footwear industry over the past decade. We had more than 200,000 workers in the early 70's. Employment has since dropped to

131,000. In the last three years alone, 20,000 shoe workers have lost their jobs. The loss of these jobs ripples through subsidiary industries: For every three workers employed in the leather products sector, there are two additional workers indirectly employed. So in addition to the 131,000 workers employed in this industry, there are an additional 90,000 jobs which are dependent on this industry's output.

In 1983, the average unemployment rate in the shoe industry was 18.7 percent, in comparison to an unemployment rate in all U.S. manufacturing of 11 percent and 37,000 shoe workers were counted among the unemployed. For the first quarter of 1984, the unemployment rate in the shoe industry remained at the high rate of 17.3 percent while the unemployment rate for all U.S. manufacturing registered 7.8 percent.

The numbers are rather overwhelming, but not when you consider that imports have captured 70 percent of our market as of the first two months of 1984. Last year it was 64 percent.

It would be useful to take a moment to look at the composition of workers in this industry. Just who are we talking about? Footwear employees generally tend to be young or somewhat older. Jobs in this industry provide entry level employment. In some rural communities, jobs in shoe factories may be the <u>only</u> source of employment. Many

older workers have been employed making footwear for several decades. Retraining is not an option for them. Many workers in this industry are women. They tend to be secondary wage earners. They cannot move when the local shoe factory closes. Many minorities, for whom unemployment rates have been historically high, work in this industry. There are fine craftsmen with long years of experience in this industry. Their skills are not going to help them find other jobs.

The United States must have jobs such as these to keep people in this country working. Not everyone is highly skilled, or mobile; nor do sufficient numbers of our young people have the skills or experience to get that first job. The footwear industry provides decent, respectable employment for thousands of people who would otherwise have no place to go. The proof that they have no place to go is that some 37,000 footwear workers are currently unemployed.

These workers have paid dearly for years of neglect by different Administrations. This Administration not only failed to renew this industry's import relief in 1981, and more recently, failed to pursue this industry's unfair trade complaint through its Section 301 petition, but it has cut trade adjustment assistance to the bone and other family assistance programs as well. Believe me when I say that our people don't want to depend on these programs -- they want to work -- but what are they supposed to do? Where are they

supposed to go when they have lost their jobs due to no fault of their own and there are no other jobs available, or for which they are qualified?

I have been asked often whether the difference in wages paid to shoe workers in this country and to shoe workers, for example, in the Far East is responsible for the ability of imports to compete so effectively in our market. It is certainly a factor; however, there are other important factors which must be taken into account in order to answer this question properly. There is excess world production capacity for footwear. Much of this excess capacity is directed at the U.S. market simply because our market is the most open market of any of the major producing or consuming markets in the world today. For example, Australia and Canada both have global quotas on footwear imports. Japan has had a quota in place on all leather footwear imports for many years. Brazil not only has a 170 percent tariff on shoes, but also effectively embargoes all shoe imports. France and the United Kingdom restrict Korean and Taiwanese footwear through voluntary agreements. These and other such tariff and non-tariff barriers result in the fact that the United States receives about 35 percent of total world footwear exports, while consuming only about 13 percent of total world footwear consumption.

Additionally, the U.S. must contend with subsidized footwear imports from Spain, Brazil and others. Such

imports have often done their damage in the U.S. market before action can be taken to eliminate or offset the subsidy -- that is, if such action is taken at all. We contend that the deck is stacked against us and has been for a very long time. Certainly, while wage differentials do play a role in the ability to compete in our market, perhaps not such a major one as first imagined.

Irrespective of labor costs, the machinery and technologies available to shoe manufacturers today will greatly minimize foreign wage rate advantages. We are, of course, talking about a relatively modest U.S. wage rate of $5.37 per hour -- not excessive by anyone's standard. The reduction in labor content, increased productivity and the already narrowing gap between U.S. and foreign wages will improve our ability to compete against imports. If foreign shoe manufacturers adopt the same machinery that will be to our advantage. It will mean we will be competing against a smaller proportion of labor costs.

We also recognize that advancing technology, new machinery, and new processes may mean some jobs will be eliminated. But we also know that such advances will mean a stronger, more competitive domestic industry -- with a future and a future for its workers. If effective import relief is granted this industry, it will mean a resurgence in domestic production and a recovery of some lost jobs.

There is not much incentive to bring about these needed changes while imports continue to flood our market. We are just trying to keep afloat -- that's all we can do. We need a period of import relief so that this industry can continue its restructuring, an undertaking which will be the key to its survival.

I appreciate the opportunity to appear before you today on behalf of the workers in this industry and I am available to answer any questions you may have.

STATEMENT OF ROBERT LEVERENZ, CHAIRMAN, LEVERENZ SHOE CO., SHEBOYGAN, WI

Senator DANFORTH. Mr. Leverenz.

Mr. LEVERENZ. Good morning, Mr. Chairman, and members of the subcommittee. I'm Robert H. Leverenz, board chairman of the Leverenz Shoe Co. located in Sheboygan, WI.

Our company is 65 years old. Although we have consistently failed to reach again the 1973 levels of production, unit sales and employment which we then enjoyed, we are proud to be counted among the minority in our industry who still survive.

For over 20 years I have been personally traveling to Washington to visit with or testify before various governmental groups, such as yours. In every case, my thrust has been not that the shoe manufacturing industry is some sacred cow which requires special coddling, but rather that its sickness and potential demise are symptomatic of the questionable reasoning which threatens to undermine our entire economy.

Certainly I have no quarrel with the sociological and economic desirability of the minimum wage or workers compensation or unemployment comp, Social Security, the 40-hour week, premium pay for overtime, or prohibitions against child labor. But let us not delude ourselves into believing that these humanitarian benefits do not impair our capacity to compete with those countries whose products are made under conditions that we have deemed to be intolerable.

Before the late George Meany passed on, he had made a 180° turn in position and in 1977 communicated his new perspective to then President Carter, when he said that we cannot expect to enjoy every economic advantage as consumers while exporting our manufacturing jobs and eventually becoming a service nation only. When we stop adding value through the labor of our citizens to the raw materials of our Nation, we will become impoverished indeed. And I flatly predict that throngs of well-intended people, both in and apart from Government, will one day be dolefully lamenting, "What has happened to our great American economy, and where did we miss the boat in trying to avert this tragedy?"

What, then, can be done right now? Assuming a finding by the International Trade Commission of injury to the U.S. nonrubber footwear manufacturing industry because of virtually unrestrained imports, the administration can and should impose global quotas which will preserve 50 percent—not 100 percent—but 50 percent of our domestic market for a 5-year period.

I firmly believe that such relief will induce other companies like ours to make the further investment in technology which is so desperately needed.

Gentlemen, as you might guess from the fact that the company I represent bears my name, Leverenz Shoe is a family owned business. My father, Clarence Leverenz, started the company in 1919, and I, Bob Leverenz, must seriously consider terminating it in 1984.

On the brighter side, let me allude for a moment to an experience we had this year. As you may or may not know, in January, January 20 to be specific, the Allen Edmond Shoe Co. had its main plant burned to the ground. Our people, in response to a suggestion from us, unanimously voted to invite those people to come and use our facilities in New Holstein, WI: a distance of 40 miles from Belgium, WI, to use those facilities 3 days a week and to stay in business because without our help, they would have been probably injured beyond repair.

It was a very inspiring experience because our unionized people voted unanimously to help out some nonunion strangers from Belgium. It worked out very well. The Allen Edmond Shoe Co. was rescued, and CBS Evening News decided to do a story on this event.

What I am leading up to is that one of our employees on national television very succinctly outlined her feeling for the help that we rendered. She said simply that in an industry that has been penetrated 70 percent by imports, it's more than just lending a helping hand to a neighbor; it's a case of trying to help an industry survive.

Well, I suggest this morning that our industry is aflame. It needs some extinguishing of the flames. We can't expect a total putting out of the fire. We don't want that. But we certainly need some flame retardant. And I would like to submit that if the Government sees fit to give us the kind of relief for which we seek that we will not have absolute protectionism. The consumer will not be destroyed in his interest. And our industry will prove that it can pick itself up by its bootstraps and make the investments necessary in the technology we need for survival.

Thank you very much.

Senator DANFORTH. Thank you, sir.

[The prepared statement of Mr. Leverenz follows:]

STATEMENT OF ROBERT H. LEVERENZ, CHAIRMAN, LEVERENZ SHOE CO.

Good morning Mr. Chairman and members of the Subcommittee:

I am Robert H. Leverenz, Chairman of Leverenz Shoe Company. We are a small manufacturer, headquartered in Sheboygan, Wisconsin, with two manufacturing plants in nearby Valders and New Holstein, Wisconsin. Our current production capacity is in the neighborhood of 800,000 pairs per year, but I am afraid our actual production levels are considerably below that -- in the area of 700,000 pairs per year at their peak.

As you might guess from the fact that the company bears my name, Leverenz is a family business. My father, Clarence Leverenz, started the company in 1919 and was joined soon thereafter by my uncle, Carl Esch. They ran the business as a partnership until 1940, when they incorporated. I joined the business myself in 1945. I have served as President since 1963 and as Chairman and Chief Executive Officer since 1969. My son-in-law, Jon Keckonen, recently succeeded me as President. Our Executive Vice President is the son-in-law of my cousin, John Esch, the son of the man who joined my father in getting the firm off the ground back in the 1920's. Although the man at the helm will not bear the name Leverenz when I formally retire in about a year, the company is quite obviously a family-owned enterprise.

Leverenz currently specializes in two product lines: men's and women's casual cement-construction shoes and men's welt dress shoes. Our casuals, the larger of our two product lines, are sold under the "Armadillos" brand name, while our men's dress shoes carry the "Morgan Quinn" brand. My father and uncle made the decision to concentrate on branded footwear in 1945, and since then, upwards of

97 percent of our sales have been branded, in-stock footwear. The retail price points of our women's casuals range from $29.95 to $39.95. Our men's casuals retail for $39.95 to $49.95, while our Morgan Quinn line is designed to sell for between $49.95 and $59.95. By most accepted standards, we are in the medium price range.

As a seller of branded footwear, I would obviously have to concede that there are factors that distinguish one shoe from another: indeed, brand is one of those factors. There is an unprecedented number of different varieties of footwear in the market today. That is the result not only of the rapid evolution of synthetic materials and new types of shoe constructions, but also of a much greater emphasis on style. If you want to sell shoes in today's market, you have to be able to catch the consumer's eye, either by following the fashions that are "hot" or by trying to be innovative yourself in the hope of starting something of a fashion trend of your own.

Despite all of the variety in the market, I remain firmly convinced that just about anything that is imported and covers the foot competes with our product. Now I am not saying that taking such an outlook would be an effective approach to marketing. I am not sure my retailer customers would take me very seriously if I tried to convince them that one of my men's casuals would substitute quite nicely for the welt dress shoes they ordered. But in basic commercial terms, all shoes compete with one another. A retailer might have a particularly set notion on what kind of styles he wants to order, but I am not sure consumers are quite as set in their ways.

For instance, I am sure that a consumer who passes up a pair of our casuals might just as likely buy a pair of Korean joggers or some Brazilian casual shoes. Competition is, of course, either more or less direct; but the bottom line is that if the other guy's shoe is on some person's foot, you can be sure that yours is not.

We are here today, of course, because two pairs of the other guy's shoes are covering every three pairs of American feet. What this has done to the industry as a whole is discussed in detail in our presentation to the International Trade Commission. I'd like to tell you a little bit about what it has done to Leverenz.

We used to operate three manufacturing plants with a total capacity of 1,000,000 plus pairs per year. That third plant was closed in 1975 at the height of the last great import surge because we were simply unable to sustain viable production levels. Since that time, our production levels have remained flat. The OMAs with Korea and Taiwan gave us something of a breathing spell, though. We were able to increase our production moderately between 1977 and 1981 and achieved an acceptable increase in profitability during this period. But I can state unequivocally that we did not realize a sufficient increase in net profit to make the many technological improvements that we know we need to make to increase our price competitiveness.

As a result, Leverenz has not been particularly well-positioned to weather the latest surge in imports. Since 1980, our production levels have declined by 14.8 percent, our shipments by 20.6 percent and profits by 88.6 percent. If nothing is done, as I see it, Leverenz Shoe has two options: import or go out of business. Thus far, we have been able to resist importing finished footwear and if I can possibly do so, I'd like to keep it that way. We do, however,

import uppers now for use in a number of our product lines such as tube moc dress shoes and a few athleisure styles. Currently, these imported uppers account for 5 to 7 percent of our total production. I would prefer not to use them either, but I have had to as a defensive measure. Using imported uppers has allowed us to cut our production costs on these styles by 3 to 5 dollars per pair.

But that is not the way I would like to cut costs. What I would like to do is put about 20-30 new machines in my cutting and fitting rooms and maybe purchase a computer-controlled join and sew machine. With these, I could reduce my unit costs without shipping jobs overseas. But I estimate that these improvements would cost in excess of a quarter million dollars. Although we are a small company, I am sure we could rationally make such an investment if we had a reasonable expectation that we could expand our production for a five-year period. In the present so-called "free market" situation, the prospect for such an increase is about nil.

Recently I had an unusual and extremely rewarding experience that has really sharpened my perception of what is at stake for our industry. On January 20, 1984, Allen-Edmonds, a manufacturer of fine men's dress and casual footwear located in nearby Belgium, Wisconsin, lost its principal manufacturing plant to a fire. Well, since we just happened to be operating at somewhat less than full capacity -- for reasons I have already alluded to -- we came up with the idea of sharing our New Holstein facility with Allen-Edmonds on a time-sharing basis. Actually, I am pleased to admit that the real impetus for this proposal came from our employees and their local union leadership; and what perhaps impressed me the most was that our union employees were offering to operate on a four-day, ten hour-per-day schedule to enable non-union workers from Allen-Edmonds to use our plant for three days a week to make shoes. The novelty of the arrangement did not escape notice by the CBS Evening News, and I believe one of our workers put it in a nutshell when she explained why our workforce had seen fit to alter their own work week so that

a bunch of strangers -- and non-union strangers at that -- could come in to make shoes. What she said is that with imports taking more than 70 percent of the market, Allen-Edmonds would have been hard-pressed to recapture any market share had it opted to await the reconstruction of its factory. If production fully ceased, it would never be regained. For this woman, the issue was not just helping some neighbors who had been burned out; it was helping to preserve an industry.

I cannot help but see an analogy between what Leverenz saw fit to do for Allen-Edmonds and why we are here today. Allen-Edmonds burned to the ground, but this entire industry is also on fire. In fact, this industry has been on fire for a good ten years now. Between 1977 and 1981, some water was thrown on the flames and they were reduced to a mild roar. Unfortunately, not enough water was applied to douse the fire completely. Now the flames have flared once again; in fact, they have never been hotter.

The industry needs this fire extinguished, and then it needs nothing more than what we gave Allen-Edmonds: a helping hand to allow them to get back on their own two feet. I am happy to say that we are no longer sharing our factory with Allen-Edmonds because they found that the three days we could give them just weren't enough after awhile. Production increased enough that they were able to lease an entire factory in Port Washington, Wisconsin for themselves. With a helping hand, they got through the worst of times and are back on the road to recovery. With a helping hand from the International Trade Commission and the President, the nonrubber footwear industry as a whole can do the same.

Thank you.

Senator DANFORTH. Senator Mitchell.

Senator MITCHELL. Thank you, Mr. Chairman.

Gentlemen, thank you all for your statements. The order is such that you will be followed by witnesses who will testify in opposition to any import relief, and make some rather dramatic statements which sharply contrast with yours. I'm sure you have heard similar statements in other forums before. And so it's often difficult, under these circumstances, to get a clash of opinions. You get ships by ships passing in the night. One group says one thing and the other group says another thing.

And so I would like to ask you some of the questions based upon some of their statements.

They contend that relief is not necessary. That the American producers will never be competitive in low-priced footwear. I will just read you one of the statements made by one of the witnesses who says it's his central point: He says:

> We simply cannot buy from domestic manufacturers the shoes our customers will buy and can afford. The simple fact is that with limited exceptions U.S. manufacturers do not compete today in the low end of the market, nor can they become competitive in this segment even under Draconian protectionist remedies.

And it gives as the reason the wage differential. What do you say to that? Can you never compete in this area? Are we talking about two different products? Low-priced shoes that Americans simply cannot make in a style and at a price that can compete?

Mr. SHOMAKER. Well, Senator, I think for one point I should make, referred to earlier by Mr. Leverenz, is that in any form of relief that we are requesting, we are not asking that all footwear be stopped, all incoming footwear be stopped. Nor do we agree that all parts of the low-priced footwear cannot be made in this country.

We have a strong segment of low-cost manufacturers in this country. Obviously, they are the most impacted by the imports because of the beginning prices. But we know that during an earlier period of relief albeit a short one that that part of the industry began to come back and began effective competition.

So we know there is a latent possibility. I will say that we always know there is going to be a substantial portion of low-cost footwear that comes into this market, and we are not fighting that. But we don't agree that it's not possible ever to compete with low-cost footwear.

Senator MITCHELL. I think you have made a very important point, Mr. Shomaker. I might say first that Central Casting couldn't have sent us a better named person. [Laughter.]

And that is that I think the American footwear industry is unique among domestic industries in seeking what is termed as relief that asks only for 50 percent of the market in their own country. Almost all of the other industries that have sought relief have sought it when imports have reached a level much lower than 50 percent. And I recall very well the almost incredible coincidence of the President at the same time in 1981 when he denied relief to this industry when imports were 51 percent, initiated through the Department of Agriculture the administrative process to commence imports on Flue-cured tobacco where imports had reached a terri-

bly devastating level of 13 percent, and the administrative request cited the possibility that they might even reach 19 percent as justification for relief.

So I think that's a very significant part of your comment. And I think it is one that ought to be noted by those who are opposing it.

Why don't you each go ahead and make a comment.

Mr. LANGSTAFF. Thank you, Senator Mitchell. I just want to add one or two quick comments.

First of all, we do think that the industry has the capability of producing low priced shoes. Many of the companies now have the processes in place that can produce such footwear. By the same token, as Dick has suggested, we are not suggesting cutting off by the quotas all low-priced footwear. As a matter of fact, the remedy that we will be proposing has built into it a mechanism which will encourage and provide opportunity for the receipt of significant quantities of low-priced footwear into this country.

But we do think that our industry is capable also of producing significant quantities. Bob?

Mr. LEVERENZ. Senator, let's concede for the moment, even at the risk of my colleague's criticism, that we can't equal the foreign producers in labor cost. But we are willing to compete very ably on the basis of quality, fit, service, and all those intangibles that are very vital to the American consumer so that if we cannot equate through technology, equate our labor costs to those in countries that pay only one-eighth of what we pay for labor, we still can offset them in the marketplace with the other advantges of the services we render, for example. We can offset their advantages on costs alone.

What we are looking for is to buy some time so that we can draw even that margin of difference much closer and make us even more competitive over the 5-year period of relief that we seek.

Senator MITCHELL. Well, it's interesting that you should make that comment, Mr. Leverenz, because one of the other witnesses that will testify says that you guys can't sell shoes. You may be able to make them, but it's a statement highly critical of your marketing ability and discusses the inability of American manufacturers to respond to fashion changes in the footwear industry. The witnesses will obviously read it, but let me read you what he says and ask for you to comment on this.

He discusses the opportunity you had in the late 1970's during the period of import relief. And he comments that he had hoped—

> The major share of the funds would be directed to marketing programs aimed at producing better products, more relevant products. Instead, the approximately $56 million was directed solely at technology, better machinery, more efficient producer methods. Unfortunately, the American consumer is not concerned with savings due to better technology.

Can you sell shoes? Is this true?

Mr. LANGSTAFF. I would like to respond to that, Senator, if I may. First of all, yes, we can sell shoes and we have proven it over many years with very effective marketing techniques. I will put the marketing techniques of our manufacturing industry up against the marketing techniques of any foreign supplier. You tell me a company in Taiwan or Korea that has the knowledge of this

market that we have in this country, and the marketing skills that are available within our industry.

It's true that many of them have been helped dramatically by retailers going and helping them with their marketing programs. But as far as our basic industry is concerned, we have the marketing skills.

Furthermore, in the period of import relief the program to which this gentleman is referring, the program that was administered by the U.S. Department of Commerce, was largely determined by that group. We now have in place the mechanisms through the FIA and its four-phased program of marketing, technology, finance and management, and national affairs to focus the industry on major programs in each of these areas. We have the skills in hand now to really make some progress during a period of relief.

And we think we can dramatically improve marketing skills, the technology of the industry, all of the things that will make us more competitive when the period is over.

Mr. NEHMER. Senator, I just wanted to say you will hear a lot of what I would consider to be red herrings brought up by the people who do not favor restrictions on imports. Some of their arguments, I found after spending a couple or 3 days at the ITC, are outrageous. I think we ought to not lose sight of the fact of the great incentive for the retailers to import, to buy imported shoes, because of the much higher markup that they can get on the imported shoes. It's a proven fact. And that's the engine that moves their import desires here.

On the question of the inability of the United States to provide enough low cost footwear, the Volume Shoe Corp. in its brief to the ITC said that 10 to 15 percent of—and this is one of the people testifying today, after us—that 10 to 15 percent of the value of shoes produced in the United States is low cost. And convert that to quantity. That would be a significantly higher number. So they themselves have acknowledged, perhaps inadvertently, on their part that we do have a significant volume of low cost footwear produced in the United States, which is borne out by the facts.

Senator MITCHELL. Well, I have before me a statement by Mr. Shell, who will be testifying, which is diametrically the opposite of what you have just said and so I'm going to ask you, as I will ask him, to submit in writing to this committee some data in support of the conclusion. You both make conclusionary statements.

His is that contrary to what many would have you believe, true retailers do not buy imports because of the low price or a possible longer markup. You have made a statement that is the opposite of that.

I will ask you to submit in writing such data as you have to support your statement and Mr. Shell, who I assume is listening right now, I will ask him to submit data in support of his conclusion. In the interest of time, I will submit any further questions in writing and defer now to Senator Danforth because we do have another panel and he has some questions.

[The data from Mr. Nehmer follows:]

VII. Relative Markups on Imports and Domestically Produced [1] Footwear

The issue of relative mark-ups on imports and domestically-produced footwear relates to two areas: (1) why importers/retailers purchase imports; and (2) whether consumers truly benefit from so-called low-priced imports. Much testimony was heard by the Commission regarding relative mark-ups. To summarize some of petitioners' evidence that higher mark-ups are taken on imports, we note the following:

First, a 1977 Library of Congress study concluded:

Mark-up ratios on imports (assuming that these are lower priced than equivalent domestic products) appear to be higher than those on domestic products since the aim of the retailer is usually to sell identical or equivalent products at the same or approximately the same price.

Library of Congress, Study on Imports and Consumer Prices, July 19, 1977, at 10. This practice of "backward pricing," which was documented by the Commission in its first "escape clause" investigation of the industry, normally affords retailers a much higher profit margin on imports than on U.S. products.

Second, consultants for the Volume Footwear Retailers of America, Brimmer and Company, admitted during the second investigation of the industry under section 201 that a higher mark-up is taken on imports. They estimated that a 125 percent mark-up is added to imports, compared to 100 percent for domestic products. Brimmer and Company, Costs to Consumers of Absolute Quotas on Imports of Footwear from Taiwan and Korea, April 28, 1977, at 8. There is little doubt in our minds that this is a substantial understatement of the mark-up differential, as evidenced by a third piece of evidence.

A recent news article reported the admission of one U.S. retailer that buying imports directly allows him to take mark-ups of up to 300 percent. Another retailer gave as an example a $28 landed, duty-paid imported shoe which would retail for $70. "Direct Importing—A Direct Line to Profits," Footwear News Magazine, March 1984, at 30.

Fourth, a recent Footwear News article reported a new athletic shoe importing venture "focused on offering retailers. . . footwear at prices allowing larger than normal markups. . . as high as 60 percent," compared to the national average margins on athletic shoes of 40–42 percent. Under this inflated mark-up, an imported athletic shoe wholesaling for $28.95 would retail for $66.95. "Turner debuts first phase of his new branded line," Footwear News, April 23, 1984, at 2. If the "normal" markup of 40–42 percent applied, the retail price would be just $50.

Finally, there is the example of the Nike shoes presented by Mr. Stanley Nehmer at the hearing. Mr. Nehmer displayed two pairs of leather athletic shoes purchased in a Washington, D.C. retail store, each pair for $41.95. Tr. 132. There was no discernible difference in the shoes. They had the same style number and were pulled from the store's stock at the same time. Yet one was made in Korea and one in the United States. Assuming lower costs of importing from Korea than production in the United States, someone had to have taken a greater profit margin on the imported shoe. The National Shoe Retailers Association, representing independent retailers, claims they did not take a higher markup on the Nike shoes. Tr. 428. Nike notably, made no comment regarding its relative profit margins on these shoes.

Volume Shoe Corporation, in its presentation on the comparative cost of a women's jazz oxford, pointed to Exhibit A—an imported shoe with a c.i.f. cost of $4.64, and Exhibit B—a domestic show with a cost of $6.50. Tr. 338–39. The likely retail price of both of these shoes, as stated during cross-examination, was $12.99. Tr. 417. For the domestically-produced shoe, the mark-up would be 100 percent (or 50 percent in retailers' parlance); for the imported shoe, the mark-up would be 180 percent (or 64 percent in retailers' parlance). This is simply one more piece of evidence that a higher mark-up is taken on imports than on domestically-produced shoes.

Regardless of the commercial considerations loudly proclaimed by some importers as the rationale for charging relatively higher retail prices on imports, the differential between mark-ups on domestic and imported footwear is substantial and translates directly to higher profits for importers/retailers. There is no better evidence of this than the data in Table D7 of the staff report, which reflect profit margins on import operations of some 18.4 percent in 1983, two-and-one half times greater than profit margins on domestic manufacturing operations.

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[1] Excerpt from brief filed on behalf of Footwear Industries of America, Inc., Amalgamated Clothing & Textile Workers Union, AFL–CIO, and United Food & Commercial Workers International Union, AFL–CIO to U.S. International Trade Commission.

Senator DANFORTH. Well, gentlemen, I think that Mr. Hathaway pretty well spelled out the case that you should be making. In large part Senator Mitchell has gone over this ground, but, basically, I think there are two points that have to be addressed.

The first is that if import relief is granted, something good has to come of it. This is not simply a case of artificial respiration being administered for a prolonged period of time with the patient expiring at the end of the artificial respiration, but rather that there is a future for the U.S. shoe industry.

That is to say, first of all, that you have concrete plans—and Mr. Hathaway, I think, pointed out that the more specific and concrete, the better as far as making your case is concerned—you have concrete plans for modernizing your industry, making it as competitive as you can possibly make it. I think that Dick Shomaker has pretty well pointed that out with respect to Brown, that you do have concrete plans.

I suppose my first question is—is that characteristic of the industry? There are a number of shoe manufacturers in the United States. Is it characteristic of the industry to have specific plans for how the industry is going to be brought up to date and made competitive if relief is granted?

Mr. LANGSTAFF. If I may, Mr. Chairman, I will make a statement about that in a general way about the entire industry, and then I think a couple of our people would like to respond to it also.

I think you will find all spectrum of companies within an industry, some that have the highest order of technology, all the way down to some who don't have technology that is up to what we would consider state-of-the-art. The association has embarked on a program over the last year or so to begin a process of upgrading the technology skills of the industry and the marketing skills of the industry.

We have finished a major study that identifies the current state-of-the-art, and identifies those concensus priorities that the industry sees where there is a major need for new technology development. We have a task force at work on this, focusing on the eight major priorities of the industry. They are well along in this process. And we expect over the period of the 5 years of restraint to see some really significant developments there.

We anticipate embarking upon a program of audit of our individual domestic manufacturers to determine where are you with regard to this state of the art. What do you need to do or what can you do to get up to the state of the art? How much money do you have available to accomplish this, and how is the best way to use that money, what are the priorities to shepherd a program of upgrading technology and marketing skills.

You would be interested in the fact that we have more executives at work today on various task forces and subcommittees of the association working on the future of the industry than ever before, over 400 executives of the industry on various committees at work to help themselves.

I can tell you from long years of experience the industry is doing more now and planning more to help itself than ever before in history.

Mr. LEVERENZ. Mr. Chairman, I have no idea whether or not our small company is typical, but let me tell you just a little more about us. We have a net worth of somewhere around $4½ million. And we have on the drawing board plans to spend one-half million dollars, which is a pretty substantial portion of that $4½ million, if this industry is granted some relief.

We also have on the drawing boards the possibility of liquidating within the next 12 to 24 months. Now I don't mention this as any kind of a threat to anybody. It's just a matter of fact. We have not generated a profit in the last 2 years. Our people, members of the United Food and Commercial Works Union, have been understanding and have foregone any wage increases whatsoever during that period. So we are at the crossroads.

And I just stand ready to respond to your suggestion, which I think is very, very appropriate, ready to respond in a very affirmative way if we are granted any relief at all to the investment of additional money in the technology that will allow us to survive in the long term and not just for the 5-year period.

Mr. DELFINO. Mr. Chairman, just to add to what has been said, it really is very simple. Without this import relief, these manufacturers cannot implement the technology that is needed to continue producing as they have in the past. And I'm glad that Mr. Leverenz said what he said about the United Food and Commercial Workers. I just want to add something to that.

The people that we represent, the workers, are consumers also. We are not only concerned about their welfare, but we are concerned about their jobs because without this import relief, we have lost members constantly. We are doing whatever we can—and I'm sure the Amalgamated Clothing Workers is also—to help these manufacturers stay in business by conceding things that they are asking us to do.

We don't like to do it, but we almost have to because without that, they are going to go out of business. And we are looking for employment for our people. Thank you.

Mr. NEHMER. Mr. Chairman, I might just read to you a little item from the Elkins, WV, newspaper called the Inter Mountain. It talks about Bata Shoe closing. Bata Shoe, incidentally, is a member of the Volume Footwear Retailers Association.

And the vice president of Bata Shoe came to Elkins, WV, earlier this month to tell the 175 employees of their company there that as of July 1 the plant will be shut down. And then the article goes on to say, to quote the vice president of the company: "If the International Trade Commission recommends to the President of the United States some new trade restrictions and he signs it, then there is always the hope that things will change and we may reconsider what we are going to do." That's a quote from Mr. Peter Nicholls, vice president of Bata Shoe Co.

Senator DANFORTH. Thank you.

Now the followup point that would be made by USTR or anyone else whose job it is to look into whether a modernization program is advisable is, will anything work? That is, given the most modern ideas and the best equipment and so forth, even granting that, is there a future for the U.S. shoe manufacturing industry? or is the

U.S. shoe manufacturing industry a dead duck no matter what it does?

And I suppose the question there is even bigger than the shoe industry. It is whether there is any future in the United States to an industry which has a very high labor component.

How would you respond to that?

Mr. LEVERENZ. I would respond very definitely to the effect that there is a future for the industry. I personally, in my price range, which we call medium price, I would definitely concede a labor cost advantage to the importer. There is no question but what in my time that will not be totally offset.

But as I indicated earlier, there are factors that will offset that one advantage and will keep me alive for a long time to come.

Furthermore, if I didn't believe that there was a future for the shoe industry, I would have liquidated a long time ago because my resources could better be employed in some activity other than that which breaks even.

Mr. LANGSTAFF. Let me introduce another factor that I think is appropriate for the Senate to consider in looking at the domestic industry. I endorse the things that Bob has said because I do think that the industry can compete.

We have an explosion of micro processors right now that are making possible some things in technology that we couldn't have dreamed about 10 years ago, and it is getting faster, and it is getting less expensive to apply these things.

So I think there is a lot that is going to be done. But I want to give you another thing for you to think about. In 1940, just prior to the war, this country produced 3.46 pairs for every citizen of the Nation. During the war, the country provided footwear for practically all of the allies, including our own civilian population. Even at that time, though we were rationed, the rationing was 3 pairs per person.

Today, this country produces 1.46 pairs per capita. Now what are we going to say to our citizens in the event of a crisis when we look at the situation we will face in some future time when there may be a desperate need for footwear? Do we wipe it out, as somebody said earlier? Do we depend on the footwear from safe havens like Taiwan, and Korea, and Brazil, and the other parts of the world?

I think this is an appropriate thing for you to consider and for the ITC and the Nation at large to consider. We need the industry. It's a strategic industry. It employs people in small towns. It employs a high percentage of women. It speaks to the need for an industry that employs unskilled and semiskilled workers. We can't all make high-technology things.

So I just throw that in, Mr. Chairman, for your consideration.

Mr. DELFINO. Mr. Chairman, I just wanted to add to what George has said. The concern is not only the manufacturers going out of business—obviously, that's a great concern—but we must also take into consideration the effect on the communities where these plants are located because they too will be devastated if these plants go out of business.

I also want to mention the fact that we represent leatherworkers in our organization. How many at this point, I can't tell you. But it's a related industry. And what happens to the shoe industry is

going to happen to the leather industry. We haven't talked about that yet. But it seems to me that Mr. Fitzgibbon's presence here demonstrates that there is a concern also for the leather industry.

Senator DANFORTH. With respect to the Trade Adjustment Assistance Program for industries, Mr. Hathaway's prepared testimony points out that from mid-1975 to the end of 1983 technical assistance of some $5.7 million has been provided to the industry through consultants under direct contact to the Department of Commerce. In addition, seven footwear firms received $30,000 in technical assistance directly from EDA.

Does anyone on the panel have any knowledge about how effective the Trade Adjustment Assistance Program has been with respect to providing technical assistance to the shoe companies?

Mr. LANGSTAFF. If I may give a general overview. There are several parts of the Adjustment Assistance Program and the money supplied by the Department of Commerce that were very useful. For example, it permitted us to establish what was first called the American Shoe Center, which is a technology center for the industry which has evolved into the technology wing of the Footwear Industries of America.

That has been very useful. It was just getting started at the time the OMA's were discontinued, Mr. Chairman. And as a result, we lost the opportunity to have the full benefit that was available there. There have been several other studies that were completed with EDA money that have been very useful. The technology study I mentioned a while ago was in part financed by adjustment assistance funds and the industry itself.

There are a number of other ways in which we have had significant help. I very frankly think that the help that was given to individual companies was not a solution that is viable for the industry at large. It's a Band-Aid. It's not really the solution to the needs of this industry. Helpful, but not the solution.

Senator DANFORTH. You wouldn't throw your arms in the air when the program is terminated?

Mr. LANGSTAFF. I'm sorry. What was that?

Senator DANFORTH. You just wouldn't go into a faint when the program is terminated? In other words, it has been marginally effective as far as you are concerned.

Mr. LANGSTAFF. Yes; it has been useful, but it's not the central core that offers a permanent solution.

Senator DANFORTH. My final question has to do with price. Of course, the effect on price is one of the major concerns in any trade relief. And I'm sure we will hear about that from the next panel.

What will be the effect on price to the consumers if relief is granted?

Mr. LANGSTAFF. Let me speak to it just briefly, and then we have got several that would like to comment on it.

I think one of the most effective ways to understand this is to look back and see what happened during the period of the OMA. And, frankly, during that period, the price of footwear in this country went up less than the CPI index. The indications all are that we can expect certainly some continuing average price rises in the price of footwear, but history seems to indicate that it would con-

tinue to be modest, and that it would not have a dramatic consumer impact

Senator DANFORTH. Does anyone else want to add anything on that point?

Mr. NEHMER. When we have the opportunity, Mr. Chairman, to make our presentation to the International Trade Commission on remedy in this case, which has not been done yet, I think we will be able to hopefully make a convincing case that the price impact of the import relief we would be seeking would certainly be minimal.

Of course, I am reminded of the report of the Senate Finance Committee when the 1974 act was passed and the present escape-clause procedure was enacted. And it said that if the effect of import relief is to result in a somewhat slightly higher price to consumers for the product if imports are restricted, the alternative to that is growing unemployment, lost jobs, and so forth. The Senate Finance Committee said they certainly would opt for the former, the effect of somewhat higher prices. That's not an exact quote, but that was certainly the intent.

Senator DANFORTH. Gentlemen, thank you very much for your testimony.

Next we have a panel consisting of Peter Mangione, Volume Footwear Retailers of America; Mr. Joseph J. Shell, National Shoe Retailers; Mr. Dale Hilpert, Volume Shoe Corp.; Mr. Chris Van Dyke, NIKE, Inc.

Mr. GOLDBERG. Mr. Chairman, with your permission, Mr. Shell was unable to be here today. My name is James Goldberg. If it's all right with you, I will sit in and present his testimony.

Senator DANFORTH. All right.

Mr. Van Dyke, Mr. Packwood has sent a letter to me, and he asks me specifically to acknowledge your presence. You are from Oregon?

Mr. VAN DYKE. That's correct.

Senator DANFORTH. Well, Senator Packwood is in Oregon today. But he asked me to acknowledge your presence.

Mr. Mangione, please proceed.

STATEMENT OF PETER T. MANGIONE, PRESIDENT, VOLUME FOOTWEAR RETAILERS OF AMERICA, WASHINGTON, DC

Mr. MANGIONE. Good morning, Mr. Chairman, members of the subcommittee. My name is Peter Mangione. I am president and executive director of the Volume Footwear Retailers of America. I am accompanied today by our past chairman, Mr. Alvin Levine, chairman of the board of Pick & Pay Stores of Charlotte, NC, a company which is owned by the Bata Shoe Co.

Our members account for about 50 percent of retail sales of footwear sales in the United States. We employ over 100,000 in our retail stores, and our members produce—that is, manufacture in their own U.S. plants—approximately 15 percent of total U.S. production. We represent both retailers and manufacturers.

We welcome this opportunity this morning to appear before the committee. We have presented a detailed case to the U.S. International Trade Commission defending 201 proceedings in support of

our position that there has been no injury or threat thereof to the industry producing nonrubber footwear substantially caused by imports. We are opposed to any additional period of relief.

This is an industry which has already been given a 4-year period of relief during which imports were essentially stable. The producing industry has substantially adjusted during that period, and during the 2 ensuing years under this statute in which a petition for relief could not be filed.

Still another period of relief would perpetuate protection, contrary to the policy of the Trade Act, to provide a windfall to highly profitable companies, create new demands on an already strained Federal budget, and severely penalize consumers, particularly low-income families.

Essentially what the footwear manufacturers who you heard testify before are asking for is a subsidy, financed in part by Government and more insidiously by a hidden tax on consumers.

The adjusted and restructured industry has not demonstrated the need for such a special entitlement. Employment, measured by total hours worked and production, have been stable for the last 2 years. Profitability for the last 4 years has been much higher for shoe manufacturers than the average of all manufacturers, and has been higher than historical levels in the footwear industry. I refer your attention to the chart behind me.

The long-range viability of the industry lies in their continued concentration in product lines where there is little import competition and where they have already demonstrated their competitiveness: higher priced, better grade, especially branded, nationally advertised footwear; specialty products; and footwear produced with a large degree of automation and in large volume at low prices.

Most of U.S. production is now controlled by manufacturers who have already adjusted by incorporating importation and retailing into their successful merchandising strategies. The cost of protection demanded would be extraordinarily high. A study by Dr. William Kline, commissioned by VFRA and to be published shortly, establishes that protection would cost American consumers about $2 billion per year, and $10 billion over the 5-year period demanded.

The average American family would be paying an extra $200—this is a correction in the copy you have—an extra $200 for footwear over the next 5 years. Every job saved would cost $60,000 a year.

Imports are highly concentrated in lower priced bracket areas where the domestic industry does not by and large compete. This means that low-income consumers, those who are least able to afford it, will be paying a substantial subsidy to a profitable industry and highly profitable companies.

The restructured industry has found areas in the market where it is competitive and viable. However, it cannot, and could not, even with protection, produce shoes in important segments of the shoe market. As retailers, we simply cannot obtain footwear in sufficient volume and variety from domestic manufacturers in areas of explosive consumer demand—low-price footwear, athletic footwear, and the volatile fashion footwear market.

Another bite at the apple, another period of relief on top of 4 years of protection, would devastate the consumer, penalize retail-

ers, would not solve the problems of individual domestic producers and would, under the statute, be completely unjustified.

Thank you.

Senator DANFORTH. Thank you.

[The prepared statement of Mr. Mangione follows:]

VFRA
Volume Footwear Retailers of America
1319 F STREET N.W. / WASHINGTON, D.C. 20004 / TEL. (202) 737-5660

PETER T. MANGIONE
PRESIDENT

TESTIMONY OF PETER T. MANGIONE
PRESIDENT, VOLUME FOOTWEAR RETAILERS OF AMERICA
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE
MAY 25, 1984

Mr. Chairman, Members of the Committee:

My name is Peter Mangione. I am the President of the Volume Footwear Retailers of America. I am accompanied today by our past Chairman, Mr. Alvin Levine, Chairman of Pic 'n Pay Stores of Charlotte, NC. Our members account for about 50% of retail sales of footwear and produce in their own U.S. plants approximately 15% of U.S. production.

We welcome this opportunity to appear before the Committee. We have presented a detailed case to the International Trade Commission in the pending 201 proceedings, in support of our position that there has been no injury or threat thereof to the industry producing nonrubber footwear, substantially caused by imports. We are opposed to an additional period of import relief.

This is an industry which has already been given a four year period of relief during which imports were essentially stable. The producing industry has substantially adjusted during that period, and the ensuing two years under the statute in which a petition for relief could not be filed.

Still another period of relief would perpetuate protection, contrary to the policy of the Act, provide a windfall to highly profitable companies, create new demands on an already strained Federal budget, and severely penalize consumers, particularly low income families.

Essentially what the footwear manufacturers are asking for is a subsidy, financed in part by Government and (more insidiously) by a hidden tax on consumers.

The adjusted and restructured industry has not demonstrated the need for such a special entitlement. Employment (measured by total hours worked) and production have been stable for the last two years. Profitability for the last four years has been much higher for shoe manufacturers than the average for all manufacturers and has been higher than historical levels in the footwear industry. (See Chart I and attached Table.)

The long range viability of the industry lies in their continued concentration in product lines where there is little import competition and where they have already demonstrated their competitiveness: higher priced, better grade, especially branded, nationally advertised footwear; specialty products; and footwear produced with a large degree of automation in large

volume, at low prices. Most of U.S. production is now controlled by producers who have already adjusted by incorporating importation and retailing into their successful merchandising strategies.

The cost of the protection demanded would be extraordinarily high. A study (commissioned by VFRA and to be published next week) by Dr. William Cline establishes that protection would cost American consumers about $2 billion per year and $10 billion over the five year period of relief demanded. (Chart II).

The average American family would be paying an extra $291 for footwear over the next five years. (Chart III).

Every job which would be saved in the U.S. footwear industry will cost American consumers $60,000 a year. (Chart IV).

Imports are highly concentrated in lower price brackets, areas where the domestic industry does not, by and large, compete. This means that low income consumers, who are least able to afford it, will be paying a substantial subsidy to a profitable industry and highly profitable companies.

The restructured industry has found areas in the market where it is competitive and viable. However, it cannot, and could not, even with protection, produce shoes in important segments of the shoe market. As retailers, we simply cannot obtain footwear in sufficient volume and variety from domestic manufacturers in areas of explosive consumer demand: low price footwear, athletic footwear and the volatile fashion market in popularly priced footwear.

Another bite at the apple -- another period of relief on top of four year of protection -- would devastate the consumer, penalize retailers, would not solve the problems of individual domestic producers and would, under the statute, be completely unjustified.

Thank you.

VFRA Member Companies

Bata Shoe Co., Inc.	Butler's Shoe Corp.	C & J Clark
Edison Brothers Stores	Endicott Johnson/Nobil	Shoe Town, Inc.
Genesco, Inc.	HRT Industries, Inc.	Karl's Shoe Stores
Kinney Shoe Corporation	Kobacker Stores, Inc.	Meldisco
Melville Corporation	Morse Shoe, Inc.	National Shoes, Inc.
Zayre Corporation	J.C. Penney Co., Inc.	Pic 'n Pay Stores
J.S. Raub Shoe Corp.	Regal Shoe Shops	SCOA Industries
Sears, Roebuck & Co.	Shoe City, Inc.	Shonac International
Simco Stores, Inc.	Spencer Companies, Inc.	Standard Shoe Company
Thom McAn Shoe Co.	Tradehome Shoe Stores	Volume Shoe Corp.

Comparison of Nonrubber Footwear Manufacturing Industry
Operating Profit Margins with Those of Other Industries, 1972-83

Ratio of Operating Income To Net Sales

Industry	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Nonrubber Footwear	**5.7**	**5.2**	**5.1**	**5.4**	**NA**	**5.4**	**5.6**	**7.2**	**8.9**	**9.1**	**7.6**	**7.8**
Textile Mill Products	5.3	6.0	6.2	4.2	5.7	5.6	6.3	6.2	5.2	5.4	4.5	6.1 *
Nondurable Goods	7.5	8.2	8.1	7.7	8.2	7.9	7.8	7.9	7.4	6.9	6.0	6.7 *
All U.S. Manufacturing	7.8	8.5	7.7	7.2	8.1	8.1	8.2	7.7	6.8	6.7	5.1	5.7 *

* Based on first three quarters of 1983.

Source: Nonrubber footwear: Data for 1972 - 1975 as reported In USITC Publication 758, February 1976, At A-158; Data for 1977 - 1978 as reported in USITC Publication 1139, April 1981 at A-43; Data for 1979 - 1983 as reported In USITC Staff Report, Statistical Tables Excepted from the Prehearing Report to the Commission on Inv. No. TA-201-50, Nonrubber Footwear (April 20, 1984), at 16.

Other Industries - U.S. Department of Commerce, Bureau of Census, Quarterly Financial Report for Manufacturing, Mining and Trade Corporations, various Issues covering 1981/1983 data and Federal Trade Commission Quarterly Financial Report for Manufacturing, Mining and Trade Corporations, various Issues covering 1972-1980.

STATEMENT OF JAMES M. GOLDBERG, GENERAL COUNSEL, NATIONAL SHOE RETAILERS ASSOCIATION, NEW YORK, NY

Senator DANFORTH. Mr. Goldberg.

Mr. GOLDBERG. Thank you, Mr. Chairman.

My name is James Goldberg. I'm here this morning on behalf of Joseph J. Shell, who is president of the National Shoe Retailers Association. NSRA represents close to 4,000 companies and comprises the bulk of the independent shoe retailers operating in this country selling nationally branded, largely domestically manufactured, products.

There is no question that today's domestic footwear manufacturing industry is a vastly different one than the one which first appeared before the U.S. International Trade Commission more than 15 years ago. There is also no question that footwear and footwear consumption in this country is vastly different than it was 15 years ago. No longer is footwear viewed by the consumer as a utilitarian product. Instead, as an executive of one of the major domestic manufacturing companies put it recently, footwear today is viewed by the consumer as "ego intensive." It's not just foot covering. It's fashion. It's style. It's ego gratification. It's also impulse buying. And this is what retail companies market and promote.

In the 1960's, retailers bought what the domestic manufacturer offered, and we had a manufacturer driven-market. Today, the retailer must buy what the consumer demands, and we have a customer or market driven-market.

If the retailer is to survive and grow, the buyer must find the right products to satisfy this better educated, ego-intensive consumer.

Contrary to what many would have you believe, shoe retailers, at least the ones that comprise the NSRA membership, do not buy imports because of the low price or a possible longer markup. In fact, Mr. Chairman, what we are seeing today from major domestic manufacturers are shoes which are coming into this country carrying nationally advertised, what you and I would call, U.S. brands that are made abroad. And these shoes are indistinguishable in terms of styling and color from the same product which is made in the United States. They are being sold to the retailers at the same price; they are being retailed at the same price; and the independent shoe retailer is not buying these shoes because of a potential longer markup or because of a lower price.

Retailers buy what the customer wants. There is a saying in the retailer industry that if the shoe is right, the price is secondary.

Just like the marketplace will ultimately dictate the price at which shoes are sold, it will also dictate the style and the quality and the value of the shoes which are sold at retail for the remainder of this decade. It's the ability to perceive changing consumer desires and wants which will dictate which domestic manufacturers survive the decade of the 1980's and which ones will grow and prosper.

As Senator Mitchell pointed out earlier, we did make the statement that it's our belief that the major reason that many manufacturers have failed in the last 15 years is not imports per se, but

their failure to grasp the changing pattern of footvear consumption. The change from utilitarian to ego-intensive products.

The footwear manufacturer of 20 years ago, indeed of a decade ago, could have survived with a few major styles produced in a long production run. No more. That simply is not the way footwear is developed, produced and marketed in this country.

We said in the last escape clause hearing, and we repeated it again at the International Trade Commission, that directing all the attention of this industry toward technology is not going to solve the domestic manufacturers industry's problems. It's sort of like the Edsel. If it were technologically correct, it would have been the greatest car in America but it still wouldn't have sold. And we think that that is what is likely to happen to the domestic footwear industry if it continues to put its thrust at technology and not on better marketing and the development of products which the consumers will buy.

Senator DANFORTH. Thank you, sir.

[The prepared statement of Joseph J. Shell follows:]

PREPARED STATEMENT OF JOSEPH J. SHELL, PRESIDENT, NATIONAL SHOE RETAILERS ASSOCIATION

Mr. Chairman, Members of the Committee, my name is Joseph J. Shell. I am President of the National Shoe Retailers Association, a 72-year-old organization which represents close to 4,000 companies with nearly 25,000 store locations engaged in the retailing of shoes and related products throughout the United States. Independent shoe retailers operate about one-half of the shoe stores in the U.S. and do over one-half of the shoe business. NSRA also has strong international ties, with individual members operating in Canada and Mexico and chapter affiliates as far away as South Africa.

I have spent a lifetime in the shoe retailing industry, operating my own stores which later became a part of a major national shoe corporation. For the past ten years, I have served as President of the NSRA and, during that period, I have had a first-hand opportunity to observe many of the changes which have taken place in the domestic footwear industry, both at the manufacturing level and at retail, which changes are the subject of this hearing.

The domestic footwear industry is probably the most highly scrutinized body of producers ever. Beginning in the late 1960's, the domestic shoe industry has been the subject of no fewer than four "escape clause" proceedings, two investigations undertaken under section 332, one probe launched under 203, several countervailing duty cases and more than 100 cases involving firm or worker adjustment assistance petitions.

There is no question that today's domestic footwear manufacturing industry is a vastly different industry than the one which was the subject of the first U.S. International Trade Commission investigation more than 15 years ago. The number of domestic manufacturing companies is down, the number of plants producing footwear is down, the number of workers involved in footwear production is down to approximately 125,000, the total U.S. production is down and the ratio of imports to domestic consumption is up. Thus, by one statistical interpretation, it could be argued that the domestic industry is suffering from serious injury and should be entitled to relief.

NSRA does not believe that this is the case, however.

For example, we noted that footwear manufacturing is different today than 15 years ago. Footwear retailing has also undergone marked changes in the same period. According to figures released recently from the Commerce Department, there were more than 36,000 free-standing shoe stores and leased shoe departments operating in this country in 1982. Five years earlier there were 30,000 stores, and five years prior to that, in 1972, there were slightly more than 23,000 retail shoe stores. The number of paid employees engaged in shoe retailing has grown from 150,000 in 1967 to 300,000 in 1982.

It should be noted here that the Commerce Department figures include <u>just shoe stores</u>, in SIC Code Category 5661. This category includes stores whose primary business is the retail sale of shoes. It <u>does not</u> include department stores and mass merchandisers which operate their own shoe departments

nor other mixed-product outlets where shoes are sold. Although the number of workers engaged in shoe manufacturing is down to 125,000 employees, shoe retailing employees including paid employees and proprietors approximates 300,000.

Not only are there more retail establishments selling shoes today, but there are more shoes being sold. More pairs, and more different kinds of shoes. You are all no doubt familiar with the "explosion" in athletic footwear about which you will hear more later; today, there are athletic shoes for nearly every sport: tennis, racquetball, basketball, soccer, running, etc. With 50% of the women in the employment market, a whole segment of career dressing has emerged. Life styles today are varied and require many footwear needs. Our pursuit of leisure has created a vast market for casual footwear. All of this has created a need for specialized footwear and specialized footwear retailing.

A key executive of one of this country's major shoe manufacturing companies put this change best recently, when he spoke of today's footwear as being "ego-intensive". Footwear is not viewed by the consumer as a utilitarian product any more. It not just foot covering. It's fashion. It's style. It's ego gratification. It's also impulse buying, and this is what retail companies market and promote.

Retailers are on the cutting edge of this change in consumer attitudes. They have seen first hand the evolution in style, in fashion trend, in shoe excitement. Seated at the fitting stool in shoe stores all across this country, retailers

talk daily to customers, listen to their needs and their wants. The customer's desire for footwear fashion is then translated by the retailer into his purchases from manufacturers or distributors: domestic or import. In the 1960's the retailers bought what the domestic manufacturer offered and we had a manufacturer-driven market. Today, as we have shown, the retailer must buy what the customer demands and we have a consumer or market-driven market. If the retailer is to survive and grow, the buyer must find the right product to satsify this better educated "ego-intensive" consumer.

Contrary to what many would have you believe, shoe retailers -- at least the ones which comprise the NSRA membership -- do not buy imports because of a low price or a possible longer markup.

Retailers buy what the customer wants. There is a saying in the retail industry that if "the shoe is right, the price is secondary."

Of course, shoe retailers want and need a viable U.S. shoe industry. Supply lines are shorter, order turn-around time is reduced and credit and payment conditions are often simpler. But, most importantly, the shoe retailer wants the right product. Retailers are more concerned with whom their vendor is and what his marketing and support capability is, than with the country of origin of the shoes which are being sold. For example, there are an increasing number of major U.S. manufacturers which are today producing well-known "U.S." brands in factories outside of this country. Retailers

continue to buy these brands, not because the product is produced here or abroad, but because the styling is right, the brand is well-known, and the product offers value.

NSRA members concentrate primarily on brands created by a manufacturer, because, generally speaking, the independent retailer is not a large volume purchaser and he is not inclined to produce private-label, made-to-specification shoes. The price they sell these manufacturer-created brands, whether they are U.S.-produced or foreign manufactured, is dictated, not by country of origin, but by peer competition in the marketplace.

Just like the marketplace will ultimately dictate the price at which shoes are sold, it will also dictate the style and the quality and the value of the shoes which are sold at retail for the remainder of this decade.

And it is the ability to perceive changing consumer desires and wants which will dictate which domestic manufacturers survive the decade of the 1980's and which ones grow and prosper.

It is NSRA's belief that the major reason that many manufacturers have failed in the last 15 years is not imports per se, but the failure of these manufacturers to grasp the changing pattern of footwear consumption, the change from utilitarian to "ego-intensive" product. The footwear manufacturer of 20 years ago, indeed of a decade ago, could have survived with a few major styles produced in a long production run. No more. Footwear fashion is constantly changing and evolving and the successful manufacturer is one

which keeps his finger on the pulse of the retail industry, who talks to his retail customers, who visits with consumers, who understands these changing life-styles and the resulting changing trends in shoe consumption.

The domestic footwear manufacturing industry was afforded an opportunity in the late 1970's to operate under a government shield which limited imports while at the same time providing assistance to restructure the industry. NSRA had hoped that the major share of the funds would be directed to marketing programs aimed at producing better products, more relevant products and selling more U.S. made footwear. Instead, the approximately $56 million was directed solely at technology, better machinery, more efficient production methods.

Unfortunately, the American consumer is not concerned with savings due to better technology. The consumer wants the right shoe, at the right price to be sure, but, most importantly, the right product. Had the domestic footwear industry put more of the government's financial aid into marketing, there might well be more domestic companies surviving today.

STATEMENT OF DALE HILPERT, CHAIRMAN, VOLUME SHOE CORP., TOPEKA, KS

Senator DANFORTH. Mr. Hilpert.

Mr. HILPERT. Mr. Chairman, and members of the committee, I am Dale Hilpert, chairman of Volume Shoe Corp., headquartered in Topeka, KS. Volume is a wholly owned subsidiary of the May Department Store Co. located in St. Louis, MO.

Volume operates 1,450 retail outlets around the country, serving low-income customers. The average retail price of shoes we sell is $14, compared to the average retail price of shoes in the United States of about $30.

Mr. Chairman, there are two overriding facts that characterize our customers. First, they are extremely price conscious. When we had the rise in prices that significantly raised our prices during the OMA period of 1977 to 1981, our customers responded by buying fewer pairs of shoes. The second characteristic of the low income customer is that like all other American footwear customers, they have become highly fashion conscious.

In an age of mass media, fashion trends, which change very rapidly in shoes today, know no bounds of region or income.

Mr. Chairman, in the very limited time this morning, I have one central point. We simply cannot buy from domestic manufacturers the shoes our customers will buy and can afford. The simple fact is that with limited exceptions, U.S. manufacturers cannot compete today in the low end of the market. Nor can they become competitive in this segment even under Draconian protectionist remedies.

The reason for this is clear. The wage differential is 400 to 500 percent between the United States and Taiwan and Korea. That is simply too great for U.S. producers to become competitive in low-cost shoes. This is not necessarily the case in higher priced shoes, where the relatively greater importance of skilled labor, the use of more expensive materials, and the less price sensitive customer combine to accommodate U.S. labor wages.

Nor can this price gap be closed at the low end of the market through any realistic level of productivity advances. Indeed, U.S. productivity would have to increase at 40 times its present rate just to fall no further behind.

To assess the impact on the low end market of potential import quotas, Volume contacted two highly regarded economists, John Mutti and Malcolm Bale. We asked them to calculate the effect on the low-cost segment of a remedy of the sort suggested by the Footwear Industry of America in its press release—a rollback of imports to 50 percent of the U.S. market, using extremely generous assumptions about improvements in domestic industry productivity.

The Mutti-Bale model demonstrated the quotas would have the following effects:

Low income customers would pay $3.1 billion more for shoes, and all customers would pay $5.8 billion more; consumption of all low cost footwear would fall 23 percent as low income consumers would react, as they did in the past, by buying less; only 3,700 jobs would be created in the low cost segment at a cost of $84,000 per job per year. Equally important, all of these jobs would disappear as the quotas were lifted.

Mr. Chairman, the overriding point is this. Even with costly protection, domestic producers cannot become competitive in the production of low cost shoes. Indeed, the adjustment out of this end of the market already has virtually taken place. Today, less than 15 percent of the value of all footwear production in the United States consists of low cost shoes, and most of this is slippers and limited use, machine made shoes which actually are doing quite well.

Imposing quotas on footwear imports, particularly in the low end market, is to engage in a futile, costly and self-defeating exercise for which American consumers, and particularly those who can least afford it, will pay dearly.

Thank you.

Senator DANFORTH. Thank you, sir.

[The prepared written statement of Mr. Dale Hilpert follows:]

TESTIMONY OF DALE HILPERT

CHAIRMAN, VOLUME SHOE CORPORATION
TOPEKA, KANSAS

BEFORE THE

INTERNATIONAL TRADE SUBCOMMITTEE
OF THE
SENATE FINANCE COMMITTEE

May 25, 1984

Mr. Chairman, Members of the Committee:

My name is Dale Hilpert. I am Chairman of Volume Shoe Corporation, headquartered in Topeka, Kansas. Volume is a wholly-owned subsidiary of The May Department Stores located in St. Louis, Missouri.

Volume operates 1450 retail shoe outlets around the country serving low income consumers. A substantial portion of our customers have incomes below the poverty level. The average retail price of our shoes is about $14, compared with an average retail price of about $30 for all shoes sold in the United States.

Mr. Chairman, there are two overriding facts that characterize our customers. First, they are extremely price-conscious. With low incomes, they cannot afford even small price increases. When we had to raise our prices significantly during the OMA period from 1977 to 1981, our customers responded by buying fewer pairs of shoes. Their budgets are not flexible enough to support the increases in footwear costs caused by import restrictions.

The second characteristic of our low income customers is that, like all other American footwear customers, they have become highly conscious of style. Simply because they are poor does not mean they will buy anything we put on the shelf. In an age of mass media, fashion trends -- which change very rapidly for shoes -- know no bounds of region or income.

Mr. Chairman, in the very limited time this morning, I have one central point to make: we simply cannot buy from domestic manufacturers the shoes our customers will buy and can afford. If I could, I would, given proximity and lower transportation costs of domestic producers. But the simple fact is that, with limited exceptions, U.S. manufacturers do not compete today in the low end of the market, nor can they become competitive in this segment even under draconian protectionist remedies.

The reason for this is clear. The wage differential of four to five hundred percent between the United States and Taiwan and Korea simply is too great for U.S. producers to be competitive in low cost shoes. This is not necessarily the case in higher priced shoes, where the relatively greater importance of skilled labor, the use of more expensive materials and the less price-sensitive consumer combine to accommodate U.S. wage levels. But at the low end, the wage gap creates a 20-40% price gap.

Nor can this price gap be closed at the low end through any realistic level of productivity advances. Indeed, U.S. productivity would have to increase at 40 times its present rate just to fall no further behind.

Mr. Chairman, that won't happen and it can't happen, even with severe protection.

To assess the impact on low end consumers and producers of potential import quotas, Volume contacted two highly regarded economists, John Mutti and Malcolm Bale. We asked them to calculate the effect on the low cost segment of a remedy of the sort suggested by the Footwear Industry Association in its press releases -- a rollback of imports to 50% of the U.S. market -- using extremely generous assumptions about improvements in domestic industry productivity.

The Mutti-Bale model demonstrates that such a quota would have these effects:

- Low income consumers would pay $3.1 billion more for their shoes, and all consumers would pay $5.8 billion more;

- Prices of low-cost imports would rise 45% by the fifth year;

- Consumption of all low-cost footwear would fall by 23% as low income consumers would react, as they did in the past, by buying less;

- Only 3700 jobs would be created in the low-cost segment, at a cost of $84,000 per job. Equally important, all of these jobs would disappear as soon as the quotas were lifted.

Mr. Chairman, the overriding point is this: even with costly protection, domestic producers cannot become competitive in the production of low cost shoes. Indeed,

the adjustment out of this end of the market already has virtually taken place. Today, less than 15% of the value of all footwear production in the United States consists of low cost shoes, and most of that is slippers and limited-use, machine made shoes which actually are doing quite well.

The ironic fact is that imposing quotas on footwear imports, particularly in the low end of the market, will transfer American resources from U.S. consumers to foreign manufacturers and produce the same kind of product upgrading we have seen in autos. The effect will be to drive foreign producers into the heart of that segment of the U.S. industry that is most competitive.

Mr. Chairman, to do so is to engage in a futile, costly and self-defeating exercise for which American consumers -- and particularly those who can afford it least -- will pay dearly.

Thank you.

STATEMENT OF CHRIS VAN DYKE, EAST COAST COUNSEL, NIKE, INC., WASHINGTON, DC

Senator DANFORTH. Mr. Van Dyke.

Mr. VAN DYKE. Mr. Chairman, Senator Mitchell, my name is Chris Van Dyke, and I am east coast legal counsel for NIKE, an Oregon corporation.

NIKE has requested time to appear today to present our view that athletic footwear is different and that the industry which produces it is separate, identifiable, and economically very healthy. As such, it is our position that the athletic footwear industry does not need or seek any relief from import competition.

The domestic footwear industry seeks relief in the form of quotas to allow that industry time to adjust to import competition. From its birth as an international industry in the early 1970's, the athletic footwear industry, through the structuring of its research, development, and production sourcing, has already achieved the adjustments envisioned as a central purpose of section 201 relief.

The athletic footwear market and running boom was largely created by foreign manufacturers, those being Tiger, Puma, and

Adidas. In the early 1970's, there was no domestic manufacturer of high performance athletic footwear as we know it today. When NIKE was founded during this period of time, all the shoes were produced offshore and total U.S. employment was less than 50 people. Last year, NIKE produced nearly 3 million pairs of athletic shoes domestically and had over 4,000 people on its U.S. payroll.

At the same time, foreign manufacturers, such as Adidas, Semad, Bada, and Pony, opened production facilities within the United States. The high performance athletic footwear industry, which was comprised almost solely of imports in the 1970's, has achieved a true international character as imports are now complemented with high end U.S.-produced athletic footwear.

The athletic footwear industry has experienced tremendous growth in the last 10 years, and earned record profits in 1983. When measured by operating profits at the percentage of net sales, approximately 12 percent. And it shows promise of continual growth and prosperity in the future.

Record profits have enticed new entrants into the industry and spurred increased domestic and international investment. Review of the economic data collected by the ITC for the pending 201 petition demonstrates that over the last 5 years domestic industry producing athletic footwear has seen a dramatic increase in production, profits, shipments and the opening of new production facilities.

The significant percentage of athletic footwear imports are accounted for by domestic manufacturers. NIKE is concerned that should domestic nonrubber footwear industry be granted global quotas as they are presently seeking, and the athletic industry is not excluded from the scope of that import relief, the domestic athletic manufacturers will be negatively affected since most import a significant number of shoes for U.S. consumption.

The domestic athletic footwear industry is healthy and profitable because it has, indeed, adjusted to international competition. NIKE believes that the athletic footwear industry can continue to experience record sales and growth without Government-granted import relief.

Thank you.

Senator DANFORTH. Thank you.

[The prepared statement of Mr. Van Dyke follows:]

PREPARED STATEMENT OF CHRIS VAN DYKE ON BEHALF OF NIKE, INC.

NIKE appreciates the opportunity to submit this written statement in support of oral testimony at the hearing of the Subcommittee on Trade of the Senate Committee on Finance on May 25, 1984. NIKE's position before the International Trade Commission in the pending 201 Petition for import relief and its position before this Subcommittee is simply stated. NIKE believes that the athletic footwear industry is, in virtually every phase from research and development to retail sales, separate, distinguishable and distinct from the domestic industry producing non-athletic footwear. NIKE, Inc., an Oregon corporation, is a U.S. producer and importer of rubber and non-rubber athletic footwear, and a leader in the development of a distinct and identifiable international athletic footwear industry. NIKE opposes the petition inasmuch as its requested relief applies to athletic footwear.

The separate international character and economic vitality of the athletic footwear industry is not simply a market fortuity. NIKE has, as has virtually every other athletic footwear manufacturer, carefully designed its production and sourcing strategies so as to maximize comparative production advantages, combining domestic and foreign production in the creation of a truly international athletic footwear industry. By so structuring its research and development and production, the athletic footwear industry has already achieved the "adjustments" envisioned as the central purpose of Section 201 relief. Quotas or higher tariffs would, in our opinion, be injurious to the athletic footwear industry.

We will show in this statement that the athletic footwear industry is a separate, identifiable and international industry which is economically healthy and, as such, presents an inappropriate subject for import relief under Section 201 of the Trade Act of 1974. NIKE will be strongly advocating that should import relief be considered for the domestic non-rubber footwear industry that the athletic footwear industry be excluded from consideration because of its distinguishable character and statistically verifiable healthy economic condition.

NIKE, Inc., an Oregon corporation, is the successor to a 1964 partnership known as Blue Ribbon Sports, and a 1967 Oregon corporation, BRS, Inc. The purpose of the partnership was to engage in the distribution and sale of athletic shoes, and to conduct research, development, and design of athletic footwear. In 1964, the partnership had $8,000 in gross sales, representing athletic shoes sold out of a basement in Portland, Oregon. Projected revenues for 1984 exceed $900 million.

From its inception, NIKE has emphasized technical developments and innovations in athletic footwear to aid athletic performance and to help prevent injury. NIKE believes it was the first to introduce shoes with full-length cushioned midsoles (1965) and shoes with lightweight nylon uppers (1967). In 1971, NIKE developed an athletic shoe using its patented Waffle-Sole, and in 1979, NIKE began marketing running shoes with the patented Air-Sole feature. Among NIKE's many other innovations are the full-length midsole, the anatomical outsole design, Center-of-Pressure outsole design, Phylon midsole material, Variable Width Lacing System, and Cobra Pad.

The only way for NIKE to maintain its reputation as the leader in athletic shoe innovation is to continue to study the demands of athletics. NIKE Research defines the problems specific to athletic performance and shoe design and constantly seeks new, better solutions to these problems.

Today, NIKE has approximately 125 employees working on more than 200 research and development projects. NIKE also utilizes research committees and advisory boards, which include coaches, athletes, athletic trainers, equipment managers, podiatrists, and orthopedists, that meet with NIKE to review designs, materials, and concepts for improved athletic shoes.

These research and development activities are conducted at NIKE's 87,000 square-foot Corporate Technology Center in Exeter, New Hampshire. NIKE believes this is the most advanced research center in the footwear industry, and the ideas behind NIKE shoes, wherever manufactured, primarily originate at this center.

An Advanced Concepts Department studies NIKE's potential use of new and advanced materials. The department's research engineers also study ideas and concepts submitted by inventors, designers, and medical professionals. The Chemistry and Materials Research Department tests the characterisitics and durability of materials for use in footwear, including leather, synthetic upper materials, fabrics, adhesives, and midsole and outsole compounds. A Sports Research Laboratory employs research scientists to analyze the relationship between various athletic shoe designs and performance characteristics, such as

flexibility, cushioning, rearfoot and forefoot control, and energy economy. These investigations are accomplished through applied biomechanics, exercise physiology, and functional anatomy research. The lab also analyzes feedback from over 5,000 athletes who participate in extensive field tests of NIKE prototypes.

The Product Development Department applies the data, information, and testing results received from the other departments, and designs and develops final prototypes which are produced on a limited basis to determine whether mass production is feasible. Once prototypes are standardized and committed to volume production, NIKE personnel supervise quality control inspections at each production source to ensure that quality standards are met.

NIKE uses the computer aided design/computer aid manufacturing (CAD/CAM) process to assist in the design of athletic shoes. Computers also operate milling machines which produce molds used in making various shoe components.

In fiscal year 1983, NIKE spent over $8,000,000 on research and development. As evidence of a commitment to a domestic research and development presence, NIKE's budget has grown from $859,000 in 1979 to almost $7,500,000 in 1983. In 1983, NIKE alone spent more money on research and development of athletic footwear than that total segment of the non-rubber footwear industry which presented data in ITC Investigation TA-203-7 in 1980.

At the time NIKE products were introduced in 1972, NIKE, Inc., had a total of 45 employees, primarily located in

Beaverton, Oregon. Now, twelve years later, there are approximately 4,500 NIKE employees, 3,900 located in the United States and 600 overseas. The annual payroll is in excess of $56,000,000.

Over 1,000 employees are associated with NIKE's production facilities in Maine and over 650 employees are associated with NIKE's production and development centers in New Hampshire. This makes NIKE one of the largest athletic footwear producers in Maine and New Hampshire and among the largest employers in these two states. Over 1,800 domestic workers are directly involved in the manufacture of athletic shoes in the U.S. These U.S. workers directly employed in NIKE's domestic facilities worked in excess of 4 million hours drawing $22,327,000 in wages and $29,029,000 in total compensation for fiscal 1983. Although a recent reduction of the work force has occurred in both Maine and New Hampshire due to the end of particular product lines and increases in inventories, NIKE has a continuing commitment to a manufacturing presence in these states. It is anticipated that with a reduction in inventory levels and the development of new sophisticated models of athletic footwear that the growth in production activity in the Northeast will continue.

Substantial numbers of other U.S. workers are employed in the manufacture of components of NIKE athletic footwear whether produced domestically or in foreign factories. Even in many of the athletic shoes produced in NIKE's foreign factories, major components are included which are produced by domestic contract suppliers. In 1983, Gould & Scammons, Brockten, Inc., McNeil

Engineering, and Form-Tex of Rhode Island among others, supplied components in 315 shipments overseas worth in excess of $4.7 million. This figure is expected to climb to almost $7,000,000 in 1984. Although NIKE is unable to estimate the substantial ripple effect this employment has on other United States concerns providing services and manufacturing footwear, apparel, components, and raw materials for NIKE, it is clear that there is an impact.

NIKE's major products consist of an extensive line of athletic shoes for men, women, and children for competitive, recreational, and leisure wear. The majority of NIKE's footwear products are designed for athletic shoes to be used for specific purposes.

Because of the athletic-specific research and development involved in the pre-production stages as already discussed, and because of the unique manufacturing process, marketing techniques, materials, and international trade propensities as will be discussed at a later point, it is NIKE's position that all of the non-rubber footwear imported by NIKE is "athletic footwear" for puposes of the ITC petition and for eventual import determinations. NIKE specifically concedes, however, that in the current product line four models of non-rubber shoes that are imported fall outside the "athletic footwear" classification NIKE advanced in this matter.

NIKE has consistently conceded that the athletic footwear it produces is often used for other than athletic purposes. Shoes specifically designed and produced for running, basket-

ball, and court play are worn for leisure and non-sport activity.

Most importantly, however, the opposite is not true. No one would attempt to jog, play basketball, or tennis in a high-heel or wingtip dress shoe. It is the lack of two way interchangeability between athletic and non-athletic activity that separates athletic shoes from non-athletic. It has in fact been the development of high-end jogging and running shoes that has prompted the health-related boom in such activities as walking long distances to work rather than taking the bus or driving a car.

Since NIKE first offered athletic shoes for sale in 1972, revenues have increased steadily. Revenues for each of the fiscal years ending May 31 are as follows:

Year	Total Revenues
1973	$ 3,176,000
1974	4,845,000
1975	8,269,000
1976	14,100,000
1977	28,711,000
1978	71,001,000
1979	149,830,000
1980	269,775,000
1981	457,742,000
1982	693,582,000
1983	867,212,000

1984 revenues are projected to be in excess of $900 million.

Production for NIKE's domestically manufactured rubber and non-rubber athletic shoes has increased in the period from 1979 to 1983 by 115%.

Following the lead of its largest competitors and the trend of the athletic footwear industry as a whole, NIKE seriously entered the international athletic footwear market in the late 1970s. NIKE has experienced similar sales growth internationally.

Year	(All Non-U.S. Sales) International Revenues
1980	$16,575,000
1981	25,782,000
1982	42,967,000
1983	93,000,000

NIKE anticipates that foreign sales will continue to increase and this growth will provide an increasingly greater percentage of total revenues. Forecasts for the current fiscal year are for revenues from international sales of athletic footwear to exceed $145,000,000.

As the athletic footwear industry is international in scope, NIKE will continue to stress foreign market penetration as the key to maintaining a strong and competitive position in the industry. NIKE expects that there will be exceptional growth in the international marketplace with sales in over 50 foreign countries by the end of the current fiscal year. The following is a list of the properties currently owned or leased by NIKE worldwide:

U.S. Administrative Offices:	
Wilsonville, Oregon - land only (owned)	41.5 acres
Beaverton, Oregon (5 locations)	220,000 sq. ft.
Portland, Oregon	23,000 sq. ft.
Greenland, New Hampshire	23,000 sq. ft.
Memphis, Tennessee	35,000 sq. ft.
International Administrative Offices:	
Beaverton, Oregon	20,000 sq. ft.
European offices (6 locations)	165,000 sq. ft.
Asian office	50,000 sq. ft.
Distribution Facilities:	
Greenland, New Hampshire (2 locations)	487,000 sq. ft.
Portland, Oregon (7 locations)	609,000 sq. ft.
Memphis, Tennessee (2 locations)	625,000 sq. ft.
Beaverton, Oregon (3 locations)	332,000 sq. ft.
Shoe Production Facilities:	
Saco, Maine (owned)	484,000 sq. ft.
Exeter, New Hampshire (owned - 2 locations)	370,000 sq. ft.
Raymond, New Hampshire (owned)	45,000 sq. ft.
Sanford, Maine	11,000 sq. ft.
Navan, Ireland	45,000 sq. ft.
Kulim, Malaysia (owned)	62,000 sq. ft.
Heckmondwike, England	28,000 sq. ft.
Retail Stores:	
Seven locatons in United States	16,000 sq. ft.
Training Facility:	
Eugene, Oregon (owned)	4,000 sq. ft.

In the United States, NIKE markets its athletic footwear by company salespersons and 220 independent sales representatives servicing over 11,000 retail accounts consisting of department stores, shoe stores, sporting goods stores, specialty shops, and other outlets.

The NIKE shoes worn by such outstanding teams as the Georgetown University NCAA Basketball Champions are the same shoes for sale in retail outlets worldwide, many of which are produced in Maine. Collegiate champions, world-class amateurs, and professional athletes from all sports endeavors choose NIKE with the knowledge that their performance is directly linked to the quality of equipment that they wear. This equipment is, as noted earlier, designed and manufactured with the specific demands of athletes and the particular characteristics of their sports in mind.

"Athletics West," a track and field club founded by NIKE, provides coaching, training, and financial support for about 80 post-graduate amateur athletes. The formation of the club follows the recommendations of the President's Commission on Olympic Sports that private industry cooperate and participate in the training of amateur athletes who desire to continue competing after completion of high school and college education.

The club's membership currently includes such track and field stars as Alberto Salazar, Mary Decker Tabb, Joan Benoit, Mac Wilkins, and Willie Banks. Internationally, athletes such as Sebastian Coe and Steve Ovett provide consulting services to NIKE.

During 1983, NIKE sponsored or assisted in nearly 1,000 road races, marathons, and other sporting events for a broad base of participants in communities across the United States. In April of this year 4,500 runners participated in the NIKE 10-mile Cherry Blossom run in Washington, D.C. In September

of this year NIKE will conduct for the fourth straight year the Capital Challenge run where hundreds of runners compete on teams led by top Administration officials, U.S. Senate and Congressional leaders.

During the past year, NIKE has donated approximately 300,000 pairs of athletic shoes valued at millions of dollars to handicapped children participating in Special Olympics programs across the country.

Until 1975, all NIKE athletic shoes were manufactured offshore, primarily by contract factories in Japan, Korea, and Taiwan. In the latter part of 1974, NIKE began to switch a portion of its footwear production to a manufacturing plant purchased in Exeter, New Hampshire. Following successful production at that factory, NIKE has added company-owned manufacturing facilities in Raymond, New Hampshire; Sanford, Maine; Saco, Maine; and an additional plant in Exeter, New Hampshire.

At the present, NIKE also contracts with other U.S. footwear producers (Genesco in Missouri; Eastland in Maine; Osceola in Arkansas; and Simod in Rhode Island) for the production of NIKE brand footwear products.

In athletic footwear production, in addition to a blend of worldwide production, there has also arisen a great demand for U.S.-made components to be utilized in offshore production. In the last year and a half, over one-half million pair of imported NIKE athletic shoes were constructed with U.S.-made components and entered under the 807 program. American companies such as

Gould & Scammon, Brockten, Inc., McNeil Engineering, and Form-Tex, Inc., produce substantial quantities of components that are used in the manufacturing of shoes that are imported by NIKE into the U.S. Most importantly, NIKE has discovered that athletic footwear can be made competitively both inside and outside the United States. NIKE makes athletic shoes in the U.S. at a profit despite paying wage rates in excess of the national average.

The production of substantial volumes of footwear designed specifically for indigenous U.S. sports or for general athletic activities is a phenomenon primarily unique to this century. While early in the 1900s certain U.S. companies established niches in the domestic manufacturing of cleated footwear for organized team events, the U.S. athletic footwear industry might well have remained a small, arcane offshoot of the traditional leather footwear segment had it not been for the development of the all-purpose "sneaker." As an initial response to an evolving market consisting primarily of school-aged males with expanding time and opportunity for physically active pursuits, the sneaker became America's first high-volume shoe manufactured by U.S. athletic footwear companies as opposed to the traditional non-rubber or rubber footwear industries. Originally constructed with leather uppers, the conversion to canvas tops more than 50 years ago established the sneaker as a simple, economical, and vastly popular shoe which for decades to come would be used by all but the most serious athletes for not only

court sports, but for racquet, field, and running sports as well.

Because of this widespread market acceptance, it was perhaps predictable that subsequent to the introduction of canvas uppers the sneaker remained essentially unchanged for 40 years, as did the athletic footwear industry itself. Composition of the athletic footwear industry by companies during this era was clearly divisible in terms of sources of production. From the 1920s through the 1960s, ten or fewer U.S. companies, led by Converse and Keds, engaged in domestic production of sneakers and cleated shoes for U.S. consumption. A small nucleus of foreign firms also competed in the domestic sneaker market with inexpensive imports. However, among the foreign firms, two German companies, adidas and Puma, had also introduced U.S. consumers to the concept of a full line of sophisticated, high-performance athletic shoes. Some of these products were directly competitive with leather cleated footwear manufactured by a few U.S. specialty companies. In the area of performance running footwear, however, these two foreign giants, and later Japan's Tiger, created and sustained a small but enthusiastic market basically without competition from U.S. producers. Emphasis on specific performance characterisitics through full model lines, together with innovative use of component materials and manufacturing techniques, epitomized these foreign specialty manufacturers and distinguished them from U.S. producers generally.

Despite the long-term presence of these "full line" importers, the U.S. market for high-performance athletic footwear remained small and relatively flat until the decade of the 1970s. It was clear, as well, that prior to 1970, the traditional athletic market had matured and was growing only relative to population. Entry into and exit from the industry was stagnant. A select few brand-name companies dominated in both sneakers and specialty shoes, although a large volume of sneaker production took place under private labels as well. The industry continued to be polarized into "We vs. They" segments; i.e. domestic companies with little or no concern in either markets or production outside of the U.S. on the one hand, and, on the other, foreign companies of international stature which considered the U.S. only a market for the sale of athletic footwear rather than a source of supply for it.

Unlike the traditional U.S. non-rubber footwear industry, which by character and composition has remained slow to change throughout its 200-year existence, the past two decades have seen radical development of the relatively younger athletic footwear industry. In the last years of the '60s and the first years of the '70s, significant growth trends in the high-performance running shoe market became evident. In response thereto, NIKE, Brooks, New Balance, and other U.S. companies joined adidas, Puma, and Tiger in pursuit of this market. Almost immediately the industry witnessed startling design and production innovations stimulated by this competition. The footwear that fueled the expanding demand for high-performance

running shoes remained predominantly imports, as the major domestic companies continued to concentrate on the sneaker market and most new U.S. firms sourced their production offshore.

Any number of explanations for this evolution have been offered, but conventional wisdom includes at least the following three factors: (1) a change in American lifestyle reflecting greater concern with health and physical fitness; (2) the development of running and jogging as a major form of exercise; and, (3) technological innovation in shoe design and manufacturing, permitting mass production of safe, comfortable, and economical footwear for the everyday athlete. The precise interplay among these and other circumstances is, of course, impossible to reconstruct. Certain conclusions, however, are prominent. First, this increase in the sale of high-performance athletic shoes would not have happened had there not existed an industry segment which nurtured the market in its infancy, stimulated market growth by commitment to research and development, and demonstrated the ability to meet the growing market volume requirements which resulted. It is clear that the industry segment just described originally consisted almost exclusively of companies who manufactured offshore. U.S. producers, the "We" segment of the then bi-polar athletic footwear industry, were unable and unwilling to foster and supply the needs of this new market. It was not until 1977, for example, that the U.S. Customs Service determined that running shoes like or similar to imported NIKE footwear were being produced domestically and

therefore qualified for duty comparisons under the now defunct American Selling Price method of appraisement. Indeed, high-volume imports of sophisticated athletic footwear by adidas, Puma, Tiger, and American companies such as NIKE and Brooks created in real terms the athletic footwear market as it exists today.

The long-term viability of the new performance athletic market became an accepted industry fact by the late 1970s. An intensely competitive industry has grown up in response thereto as clearly demonstrated by the number of new industry entrants in the past five years and the continued growth and expansion of the domestic athletic footwear industry.

In the last year alone many of the established athletic footwear companies have greatly expanded not only product lines and markets, but production and research facilities. Examples of such growth can be gleaned from a review of industry periodicals. Prince, Inc., Spalding, Cherokee, Levi, Pro-Kennex, Muzumo Corp., Rossignol, and Yamaha all have, or are about to enter the athletic footwear industry with new athletic footwear product lines. Over the last 24 months records sales and earnings have been reported by Stride Rite (Keds), Hyde Athletic Industries, Saucony, Etonic, and Converse. New product lines have nudged the price tag of top running shoes to near $150 with $200 price tags expected in the near future. The highly competitive and technologically oriented characteristics of the athletic footwear industry have caused most major producers of athletic shoes to include new major research and development

facilities. In addition to NIKE's efforts in this critical area, Kangaroo opened a facility in St. Louis, New Balance Athletic Shoe Co. in Lawrence, Massachusetts, and Converse a laboratory in Wilmington, Massachusetts. Athletic footwear companies such as Simod America, Pony, New Balance Athletic Shoe, adidas, and Wolverine have built new domestic manufacturing facilities or purchased existing facilities. Moreover, traditionally domestic athletic footwear companies such as Converse and New Balance have not only expanded into foreign sales markets, but have balanced their domestic production with production in foreign factories through contracts with foreign manufacturers and through outright ownership of production facilities.

Clearly, major changes in the character and composition of the athletic footwear industry have occurred since the early 1970s. Perhaps none is more obvious or important in order to appreciate the current and future inclinations of the industry than the breakdown of the former "We vs. They," "domestic producer vs. importer" duality. To its great credit, the corporate membership of the industry has been flexible, farsighted, and willing to respond quickly to the forces which continually shape the international market for performance athletic footwear. Of crucial importance in this context has been the recognition by the entire industry of the absolute need to diversify sources of supply in order to maximize comparative production advantages and insure reliable, uninterrupted production flow.

Thus, traditionally domestic producers such as Converse, New Balance, Keds, Hyde (Spot-Bilt and Saucony), Wolverine World Wide (Brooks), Etonic, and literally every other major U.S. athletic footwear firm now source some portion of their production offshore. Similarly, U.S. firms which were strictly importers are now becoming significant U.S. producers. NIKE, for example, which produced no footwear in the U.S. prior to 1974, now manufactures over ten thousand pairs daily in five New England facilities with 1,828 employees engaged in all aspects of production and research and development.

Foreign companies as well have now established a U.S. production base. Bata, Ltd., a Canadian company and the world's largest producer of footwear, now produces high-quality tennis and running shoes in Belcamp, Maryland. In 1980, adidas purchased a 250,000 square-foot footwear factory in Kurtztown, Pennsylvania, and in 1982 employed 280 production workers making 3,500 pairs of athletic footwear daily. Simod America Corp., an Italian company which has produced branded athletic footwear in Europe for nine years, has started production of PVC athletic footwear in its Middleton, Rhode Island facility. Simod currently employs 280 production workers and is growing aggressively. In 1982, Pony Sports and Leisure purchased a factory in Dover, New Hampshire expressly for the purpose of making shoes for the performance running shoe market.

Clearly, the polarity between domestic companies and foreign companies that characterized the athletic footwear industry prior to 1970 has disappeared. The competitive

integration of U.S. and foreign firms in terms of both markets and production sources has produced a truly international athletic footwear industry. Examination of industry publications and trade associations provides tangible evidence of this competitive integration.

This competitive integration has resulted in the industry maximizing comparative advantages of each production source. Perhaps surprisingly this has resulted in the distinct revitalization of U.S. production of athletic footwear. Producers for the U.S. market now realize that flexibility within immense product and model ranges must be maintained in order to adapt to ongoing biomechanical feedback and technological innovation. Additionally, the regular appearance of new sports and leisure activities requires swift production responses. These are all factors which create advantages to producing close to the marketplace, and indeed are primarily responsible for the growth of U.S. production of highly sophisticated athletic footwear, especially in the running shoe category. The advantages of having U.S. production have had an impact internationally as well as domestically. As John Fisher, Vice President of Sales and Marketing for Hyde Athletic Industry has said, "the non-American world perceives running shoes to be superior when made in the United States." More recently Richard Loynd, Chairman of Converse, Inc., said the sale of Converse shoes in Japan last year were ... "because they [the Japanese] want 'Made in USA'."

More and more, the potentially vast running shoe markets in Canada, Japan, and Western Europe are looking to U.S. producers

for high-tech running shoes. Clearly, where the innovative technology crucial to this industry's development was once available only offshore, the world now looks to U.S. producers for leadership in research and development. NIKE's commitment to a permanent research, development, and manufacturing presence in New England is directly related to the international perception (one NIKE believes is accurate) that the U.S. is the world leader in the innovation and development of "high-end" athletic footwear. As NIKE's foreign producers develop the capacity to produce more technologically sophisticated product lines, often production of specific models is moved offshore. This shift, however, is generally accompanied by initiation of domestic production of a newly designed and advanced model of athletic shoe. Thus, a pattern has emerged with the development and initial manufacturing of the more "high-end" and sophisticated athletic shoe occurring in U.S. facilities until foreign producers develop the ability to manufacture such shoes. Because of the inherent complexity and special manufacturing requirements of some NIKE products and the need for physical proximity of U.S. production facilities to the research and development facility, many "high-end" models will never experience the shift offshore. This cycle has justifiably created a worldwide belief that the most advanced athletic shoes in the world are produced in America, a belief that will continue to create an international market for the American-made athletic shoes.

Trends in U.S. exports of athletic footwear also reflect the growing viability of this international industry's pro-

duction base here. In 1978, exports of both rubber and non-rubber athletic footwear totaled 1.926 million pairs. In 1983, this total was 3.34 million pairs, an increase of 73% from 1978.

With the continuing proliferation of new material concepts and production techniques which in large measure epitomize the athletic footwear industry, there are no longer any significant distinctions made among the producers of athletic footwear on the historical rubber vs. non-rubber basis. Manufacturers no longer produce as a rule only leather athletic shoes or only fabric upper athletic shoes. Within any given sport line, the modern athletic company will produce a range of shoes varying from all leather uppers to all textile uppers and a variety of combinations in between. The entire line can usually be manufactured under one roof because of the interchangeability of equipment and construction techniques. However, the same interchangeability does not exist between athletic shoe production and dress or casual shoe production. To shift production, for example, from athletic to non-athletic shoe manufacturing in NIKE's foreign and domestic plants would require not only a complete retraining of personnel, but a replacement of most machinery and equipment.

An analysis of production trends, marketing objectives and techniques, and international trade propensities demonstrates far more dissimilarities between the athletic footwear industry and either the traditional non-rubber or rubber footwear industries than there are similarities. For example, athletic footwear, in its myriad of styles and performance characteristics,

is now produced separately from other rubber or non-rubber footwear. The inherent differences in component materials and construction techniques between athletic footwear and fashion or street shoes dictate against combining production of these diverse products in the same manufacturing facilities. Thus, no production line constructing NIKE performance footwear in any factory throughout the world produces anything but athletic shoes.

It should be noted as well that such overlap between athletic shoes and other varieties of non-rubber and rubber footwear within companies, even utilizing different production sources, is by far the exception rather than the rule. Athletic firms tend to concentrate only on athletic production and other producers on their own specialties. Equally important is the technologically competitive nature of the athletic footwear industry in comparison to the non-rubber and rubber nonathletic footwear industries. As demonstrated, an essential element in the growth of the athletic footwear industry is its emphasis on constant improvement of the performance characteristics of its product. Such research has led to a continuous influx of new component materials and modified construction designs. This research is invaluable in improving the comfort, durability, performance characteristics, and perhaps most importantly, safety of athletic footwear.

Marketing strategies of athletic footwear manufacturers differ significantly from those of manufacturers of other kinds of footwear. Traditional footwear is simply not sold in the

specialty athletic footwear chains or sporting goods stores. Department stores typically segregate athletic shoes from other varieties of footwear. Consumer demands for technical advice concerning model ranges and performance characteristics as well as related equipment and training techniques place special burdens on the athletic footwear sales force. Currently NIKE employs 34 full-time employees in its "Ekin" program which has been specifically designed for providing nationwide technical assistance to athletic teams, sales representatives, and retail athletic footwear outlets. The current fiscal 1984 budget for NIKE's "Ekin" program is $1,364,793.

By these and many other measures, it is clear that street shoes, fashion shoes, and protective footwear are simply not substitutes for or interchangeable with athletic footwear in the minds of the consumer.

The growing international nature of the athletic industry sets it further apart from the traditional non-rubber and rubber industries. As athletic footwear manufacturers continue their aggressive efforts to develop world markets through the proven formula of flexible sourcing, innovative product development, and brand name recognition, this contrast has come more and more into focus.

Sourcing the production of athletic shoes is a process dependent on many variables. We have previously noted the various comparative advantages which support the vibrant and growing U.S. production of technically sophisticated performance footwear for both domestic consumption and export. This

specialized niche is the key to the continuing growth of U.S. athletic footwear employment and productivity over the next decade.

It is the profitability associated with high volume sales in the medium to lower price ranges of athletic footwear which all successful U.S. producers rely upon for their viability. Without this profitability the industry would be unable to support the research and development of technological and biomechanical innovations which are the present cornerstone of U.S. production. NIKE, for example, spent over 8 million dollars for research and development in fiscal year 1983. Sales of high-tech running shoes alone do not come close to justifying this investment. Rather, it is possible only by virtue of the delicate balance between U.S. sales of imported and domestic footwear, a balance which is best described as symbiotic in nature.

As demonstrated by economic data, collected by the ITC for the pending 201 hearings, this symbiotic relationship has produced a healthy, economically viable international athletic footwear industry. This data demonstrated, for example continually high profits and growth of those athletic footwear companies who produce such footwear domestically. Domestic athletic footwear production, employment, wages paid, and shipments have increased significantly over the past five years. NIKE believes that this data clearly dictates that import relief is simply unwarranted and in fact could be potentially injurious to the athletic footwear industry. By utilizing existing TSUS categories and the definition contained in the ITC questionaires in the pending 201 footwear petition, NIKE believes that the athletic footwear industry can and should be successfully carved out of any proposed import relief considerations.

Senator DANFORTH. Senator Mitchell.

Senator MITCHELL. Thank you very much, Mr. Chairman.

Thank you, gentlemen. I have a number of questions. First, there has been a great deal of discussion about productivity in the domestic footwear manufacturing industry. I would like to ask you a question about productivity in the footwear retailing industry, which is your industry.

Mr. Goldberg, you appeared here in place of Mr. Shell whose statement at page 2 reads:

> The number of paid employees engaged in shoe retailing has grown from 150,000 in 1967 to 300,000 in 1982. According to the Department of Commerce, during that same period of time, domestic consumption of shoes has gone from 815 million pairs to 813 million pairs.

Why do you need twice as many people to sell the same amount of shoes?

Mr. GOLDBERG. Senator Mitchell, the members of NSRA believe that the way to sell shoes is not off the rack, commodity type purchases. It's with fitting and customer service. And that's where this portion of the industry has concentrated its effort. Providing the kind of individual customer attention that many of us grew up with and have come to expect when we go in to buy a pair of shoes. Making sure they fit right, look right and feel right.

Senator MITCHELL. Nobody in your presentation made any reference to that chart that you have behind you.

Mr. MANGIONE. I did, Senator.

Senator MITCHELL. Oh, you did?

Mr. MANGIONE. Yes, sir.

Senator MITCHELL. And you are Mr. Mangione?

Mr. MANGIONE. Mangione.

Senator MITCHELL. Mr. Mangione, I wonder if you would do me a favor because I think that is an interesting chart, but it is somewhat incomplete. And if you would come up here and take this magic marker from me and write some figures up there that I suggest. I think that will make the chart more complete.

Above the 1980 figures, if you would write 14 percent. Right there. And above 1981, 13.7 percent. Above 1982, 20.2 percent. And above 1983, 21.2 percent.

Now the figures you have just written down, Mr. Mangione, and gentlemen, are the corresponding profit rates for the importing operations of those domestic footwear producers who also import.

You are all businessmen. Now if you were in the shoes, no pun intended, of those producers, and your profits were from domestic operations, the figures shown in the green part of the graph, and from importing operations the figures that Mr. Mangione has just written, would there not be an overwhelming incentive to shift your production overseas, as, in fact, of course has occurred in many cases? And the question is unless there is import relief, the type of program suggested, is it not inevitable, wholly apart from your own considerations, that there will be no domestic footwear industry?

Mr. MANGIONE. If I may, Senator, respond to this question. I would like to make two observations. First, that the profit figures you cite here for the importing operations of domestic producers may well reflect longer markups on imports. I would just contrast

that experience with the experience of the group we represent and Mr. Goldberg's group, which have submitted documentation to the ITC which indicates and proves that there is no practice of higher markups in the lower price, nonbranded makeup footwear market. And we will be happy to submit to this committee, with the appropriate confidentiality assurances, the actual figures from our companies to prove that.

Senator MITCHELL. In other words, Mr. Mangione, you would have us believe that nobody in your industry has a substantial markup on low-priced, low-cost imported shoes, but those domestic producers who import shoes from overseas do that? You don't, but they do?

Mr. MANGIONE. They may well do it, Senator. These profit figures would tend to suggest it. I don't know whether they do.

Senator MITCHELL. You don't know that?

Mr. MANGIONE. I do not.

Senator MITCHELL. Is there any reason to believe that they would be doing that which you claim you do not do?

Mr. MANGIONE. The reason we would suggest it, Senator, is the profit figures you have had me write. They can only be accounted for, I think, by this explanation.

Senator MITCHELL. Do you make profits?

Mr. MANGIONE. Not these levels, Senator. By no means.

The second point I would just want to make is that you have to understand that when you are dealing with branded manufacturers who have established in the retail marketplace a price point, a level and range of price points, by their domestically made branded footwear—and you had several of the gentlemen who make this footwear before our group—it is possible to integrate into that branded line imports which would have much lower costs than the domestic product. And, thus, reap substantial profits.

This is not possible when you are dealing with nonbranded or house-branded merchandise. You really can't just merchandise that way because the price lines are much, much lower. That's the point.

Mr. GOLDBERG. Senator Mitchell, if I might also offer one comment on your figures. I think there is another side to the picture you present. Let's take 1983 as an example. If I am a businessman and I can see that I can make 21.2 percent on import operations and 7.8 percent on domestic operations, then with or without import relief, what do I need domestic operations for if I can make almost three times as much from imports. And I think that's one of the situations that we are seeing in the case of branded footwear.

Senator MITCHELL. Well, the purpose of import relief is to prevent that from occurring, Mr. Goldberg.

Mr. GOLDBERG. Well, I understand that's the purpose, but one has to look at the numbers and see whether the purpose will be accomplished if, in fact, those numbers are correct. Is it possible to get domestic profitability up to 21.2? If it is, then perhaps import relief is warranted. If it isn't, I don't know what form of import relief is going to make that kind of economic decision for a prudent businessman.

Senator MITCHELL. Well, the argument made here by several of you—Mr. Mangione, for example, refers to a windfall to highly

profitable companies is based upon your contention that the U.S. shoe manufacturers make profits in excess of that of all U.S. manufacturers, and that this is just a way of giving them a windfall. That's in Mr. Mangione's words.

But I would point out that the preliminary data collected by the ITC demonstrates that firms that produce under 1 million pairs of shoes a year counted for 60 percent of the ITC's survey responses. And they realized a net loss in 1982, and a slight profit in 1983. In other words, the profitability of the industry is attributable to a relatively small number of large firms.

Now it is my belief that for an industry to adjust to imports, that a significant portion of the industry has to be in that profitable position. And that stating industrywide figures can and is misleading. I think that the same figures properly explained could indicate that there has not been an adjustment because of the very limited period of time—effectively only 2 years of relief.

Go ahead, Mr. Van Dyke.

Mr. VAN DYKE. Senator, if I might make a comment on that. The figures that you have added to the chart reflect a sort of adjustment. That is, domestic producers beginning to import some.

The concept of adjustment actually runs both ways. I think NIKE is an example. A company which in 1974 produced no shoes domestically, and has been producing now almost 3 million pairs a year. I think at least to the extent of the athletic footwear industry, the blending of domestic production and the sale of imports is what has made our industry healthy. And I think perhaps that can be extended to the entire footwear industry.

Mr. MANGIONE. Senator, if I may respond also to your point. Two points. You are correct in saying that 60 percent of the responses on the profitability were from manufacturers of under 1 million pair. I would also point out that only 15 percent of total production in jobs are represented by that 60 percent response, so the vast bulk of production in jobs are in the profitable firms; not the ones, who according to this survey, are unprofitable.

The other point I would make—and I think we are all familiar with this concept—is that when you are dealing with firms under a million pair, you are basically talking about privately held, relatively small concerns where the reporting of income is often understated because, needless to say, the revenues generated are often distributed in the form of salaries and bonuses to the owners of the firm and don't wind up on the bottom line income. So, while it's true that the survey responses are low in terms of traditional measurements of profitability, I think these firms are considerably more profitable than these figures would indicate.

Senator MITCHELL. I have to say, Mr. Mangione, that your statement, your description of the domestic footwear industry, is so at variance with everything that we have heard that it makes one wonder if you and the other witnesses are talking about the same thing. And I'm going to ask you to provide data supporting the statements you have made in here which describes a healthy, profitable industry.

Mr. MANGIONE. I would be happy to.

Senator MITCHELL. It appears to be contradicted or indeed is contradicted by the testimony of everybody else that has been before

us. You talk about employment and production having been stable, profitability much higher, and an industry that is fully adjusted. I don't know whether you have a more detailed statement. I only have your summary.

Mr. MANGIONE. We will be happy to submit, Senator Mitchell, our entire ITC briefs for the record.

Senator MITCHELL. The specific data upon which that is based.

I will ask just one more question because I know Senator Danforth has questions, and we are running late.

Mr. Goldberg, are most of your members small, independent retailers?

Mr. GOLDBERG. Yes, sir.

Senator MITCHELL. It's always been my understanding that they were more dependent on the domestic industry than the large retailers—special orders, return policies, quick fill-ins, and so forth. Do you feel that the total destruction of the domestic footwear industry is in the interest of your members?

Mr. GOLDBERG. Absolutely not, Senator Mitchell.

Senator MITCHELL. If you were convinced that failure to grant import relief would, in fact, result in the total abandonment of the manufacture of shoes in this country, do you feel you would be representing your members' interests by arguing against that relief?

Mr. GOLDBERG. Not if we were convinced that the entire domestic industry would fold up and blow away. We don't think that's going to happen though.

Senator MITCHELL. Since imports have risen dramatically and inexorably from 21 percent of the domestic market not much more than a decade ago, except for the brief period of abatement during the orderly marketing agreement time, and since they now reap 70 percent, what factual basis do you have for concluding other than that the decline will continue, imports will continue to take a greater share and there will be no domestic industry?

Mr. GOLDBERG. The factual basis, Senator Mitchell, as Mr. Shell outlined in his testimony to the International Trade Commission is that there are a number of domestic companies, both large and small, who are doing very well. Not only from a financial standpoint, but more importantly to us, from a marketing and product standpoint. They are making relevant products. They are making products that customers want to buy. And, therefore, the retailers want to buy them.

And many of these companies are relatively newcomers to the domestic footwear manufacturing field. People who feel that there is a place in the United States to make footwear, that they can find their niche and make a good product at a fair price and provide the customer with what the customer wants.

So it's the day to day experience with domestic companies which I think leads NSRA and its members to conclude that there will be a viable domestic footwear industry in this country. And, in fact, there are many companies which are proving this every day.

Senator MITCHELL. Well, I just think, Mr. Goldberg, that you are looking at a very short range thing, and that you are, in fact, misrepresenting—you are not adequately representing the views of the members of your industry because if 5 or 10 years from now relief is not granted, and there is no domestic industry—and it seems to

it is irrefutable, notwithstanding what you have just said—that you may regret that.

I can understand some of the other people here taking that position because their interests are different from yours. I hope very much for your sake that you prove to be right. I think if relief is not granted you will come to regret the position you have taken here, have taken more than———

Mr. MANGIONE. Senator Mitchell, if I may respond to that.

Senator MITCHELL. Yes.

Mr. MANGIONE. Our organization does represent some of the Nation's leading manufacturers of footwear. I can assure you, Senator, if we felt and if the companies I represent felt that the domestic shoe industry's demise was imminent, we would certainly not be taking the position we are taking at all.

We agree with what Mr. Goldberg has said. This is a highly segmented market. The domestic producers have found a niche in this market where they can produce profitably, viably and continue to produce in the future. The vast growth of imports that have driven the import penetration ratio up as you have described are in low priced footwear and athletic footwear which simply are not made in the United States.

Senator MITCHELL. Well, in fact, I wasn't going to get into this, but I will, Mr. Mangione. Bata Shoe is the first one of your members listed here, isn't it?

Mr. MANGIONE. Yes, sir. Mr. Levine is an executive of that company and will be happy to answer any questions.

Senator MITCHELL. Well, Mr. Levine, you are familiar then with the statement made by Mr. Nichols that was quoted here earlier today.

Mr. LEVINE. I'm familiar with it.

Senator MITCHELL. You have just shut down a plant, 175 jobs lost. And your vice president said this month that if the ITC recommends some new trade restrictions then things may change.

Mr. LEVINE. Well, I can't comment on his specific statements.

Senator MITCHELL. Why not?

Mr. LEVINE. Well, because I don't know exactly what his basis was because the type of factory that is being closed is a canvas manufacturing plant. It's not an issue that we are even talking about. It's rubber and canvas. And we are talking about the nonrubber.

Senator MITCHELL. Well, are you suggesting, then, that the vice president of your company was misinformed or———

Mr. LEVINE. No, I'm not.

Senator MITCHELL. What was it when he made that statement?

Mr. LEVINE. I don't know the reason for his statement. I know we are a customer. See, we are the retail division of Bata Shoe in the United States. We are not manufacturers. We have in the past used shoes from Bata manufacturing facilities, which they have three of in the United States. One happens to be in West Virginia, one is in Maryland, and one is in Wisconsin.

We buy shoes from those factories on an independent basis; not on a forced basis. It so happens that the shoes that were being manufactured in that plant were not in demand by American con-

sumers. As a result, they had no customer base for those shoes, and they closed the factory. That was the decision.

Senator MITCHELL. Well, then it seems rather clear that what Mr. Nicholls said was—he was either unaware of the facts, or having been unaware, made a statement that really was misleading to the people of the area. I mean there is no other conclusion possible.

Mr. LEVINE. As I say, I don't know the basis for his statement. I know from my involvement with that division of Bata Shoe.

Senator MITCHELL. I thank you, gentlemen. I will have some further questions, but I will submit them in writing in view of the time.

Senator DANFORTH. Is there a definition of low-priced shoes?

Mr. HILPERT. Senator Danforth, I would only say that generally we find it very difficult in this country to buy shoes that wholesale for less than $10 a pair. In our information provided to you, we dropped down from $10 to be somewhat conservative and set the number at about $8 landed cost or $8 wholesale.

Senator DANFORTH. What?

Mr. HILPERT. $8 wholesale or $8 landed?

Senator DANFORTH. $8 wholesale. And what would be the upper reaches of the low-priced range?

Mr. HILPERT. That's really the upper reaches. It's $8.00 and below would be the low-priced segment.

Senator DANFORTH. And what would be the retail price?

Mr. HILPERT. The retail price on those shoes would be under $20, with a concentration at around $12 or $14 a pair.

Senator DANFORTH. For $12 to $14 retail. I take it that that's the great concern that you have and that Mr. Mangione has about what would happen if import relief is granted, what would happen to the price for people who were now buying low-priced shoes. Is that right?

Mr. HILPERT. Well, yes, sir, because of our experience in the last orderly marketing agreement, 1977 to 1981, we saw the average retail prices rising between 7 and 12 percent a year. Since that time, our company, season to season, from 1981 to this point, have experienced average retail prices stable or down in every one of the seasons since the import agreement was terminated.

Senator DANFORTH. In this group of shoes, the low priced shoes, are any of them made in the United States?

Mr. HILPERT. About 80 percent of the products that we sell in our stores is imported. Twenty percent is made domestically. Interestingly enough, the most expensive shoes that we sell in our stores, cowboy boots and work boots, are made in the United States. And the cheapest shoes we sell in our stores, which are injected molded, machine made shoes, are also made domestically.

So what we sell domestically is really on the two extremes—the most expensive shoes we sell and the cheapest shoes we sell.

Senator DANFORTH. Is that correct?

Mr. MANGIONE. Yes, Senator, it's correct. Our experience also.

Senator DANFORTH. This indicates to me that it's not impossible for the U.S. shoe manufacturing industry to be competitive in low-priced shoes. They do produce 20 percent of the low-priced market.

Mr. MANGIONE. Well, I don't think Mr. Hilpert said 20 percent was produced—he said 20 percent of the shoes he buys in total are domestic, some at the high end, some at the low end.

Senator DANFORTH. Oh, I thought that he was talking about low-priced shoes.

Mr. MANGIONE. No, both parts.

Senator DANFORTH. Back to the question. All I want to do is talk about low-priced shoes, nothing other than low-priced shoes. Are any low-priced shoes produced in the United States?

Mr. HILPERT. Yes, sir.

Senator DANFORTH. What percent?

Mr. HILPERT. In our company, about 10 percent of the shoes we sell would be less than the $8 number that we talked about.

Senator DANFORTH. What percent of the low-priced shoes that are sold in the United States are produced in the United States?

Mr. HILPERT. Excuse me.

Senator DANFORTH. There is a group of shoes which we call low-priced shoes.

Mr. HILPERT. Yes, sir.

Senator DANFORTH. Most of those shoes are produced abroad, manufactured abroad.

Mr. HILPERT. Yes, sir.

Senator DANFORTH. Not all of them are manufactured abroad.

Mr. HILPERT. Correct.

Senator DANFORTH. Some of them are manufactured in the United States.

Mr. HILPERT. Correct.

Senator DANFORTH. And we are talking only about low-priced shoes now.

Mr. HILPERT. Yes, sir.

Senator DANFORTH. What percentage of low-priced shoes are manufactured in the United States?

Mr. HILPERT. Of those that we sell, about 10 percent.

Senator DANFORTH. Ten percent.

Mr. HILPERT. Yes, sir.

Senator DANFORTH. And what would you say the figures were?

Mr. MANGIONE. I would have to go along with Mr. Hilpert on that since he is one of our leading members and he is the one I would look to for an answer to the question.

Senator DANFORTH. Does this indicate the fact that 10 percent of the low-priced shoes sold in the United States are made in the United States—does this indicate that we can be competitive in low-priced shoes despite the labor differential?

Mr. LEVINE. Senator, my name is A. Levine. I run a chain similar to Volume based in Charlotte, NC. We run over 600 self-service shoe stores.

Our price line is about $13 or $14 retail, average, men's, women's and children's. Our statistics say that the average retail price—wholesale price of shoes made in America today is about $13 a pair. So we have a very, very small segment of the market that we can buy shoes from. And as Dale Hilpert said, they are direct injection molded shoes which are highly automated, not much labor involved because the soles are directly injected to the uppers, and the uppers are simple uppers, basically.

Sometimes those types of shoes are in demand. It so happens we are going through an era right now where they are not in demand. They are too heavy. They are too bulky. They don't have a fashion look. And a lot of those factories are hurting right now.

We do buy a lot of slippers. A lot of those slippers don't fall into the non—you know, they have soft soles and they are not really what we call shoes or the nonrubber footwear industry. We do buy most of our slippers domestically. We do buy some canvas domestically, which again is not part of this issue that we are discussing.

We would prefer to buy domestically. We have to put up letters of credit for imports, and we pay for the shoes long before we ever get our hands on them. We buy domestically, we get 30, 60, 90 day terms. We don't have to worry about getting shoes that are mistakes. But the nature of our business is marketing shoes that the consumers want in America. And we can't get the variety of shoes we are looking for, and we can't get the price of shoes we are looking for, and we can't get the volume of footwear we need in the——

Senator DANFORTH. All I want to find out is this: There is a labor differential. There is no doubt about it. I guess the question is could the U.S. shoe industry produce low-cost shoes if it wanted to do so, despite the labor differential.

Mr. HILPERT. Senator, I think the answer is could they produce simpler shoes, could they produce some shoes in that segment of the market—the answer is yes. What has been happening is the revolution in the low cost segment of the market, which we operate in, in the last 5 to 8 years where customers have come to expect highly sophisticated, very fashion right shoes—right on top of the fashion market. And that's where the issue lies.

The sophistication of those shoes today that are produced in vinyls and other than leather products——

Senator DANFORTH. Do they require a greater labor input?

Mr. HILPERT. Yes, sir.

Senator DANFORTH. It's not just that the U.S. shoe manufacturers don't have good taste.

Mr. HILPERT. No; it requires a very significant labor content.

Senator DANFORTH. It requires the labor content.

Mr. HILPERT. Yes, sir. It used to be that these people were relegated to buying essentially foot covering or essentially dumb shoes. Today that is not true. They are within months of what is in the most fashionable shoe stores in the United States.

Senator DANFORTH. Are these women's shoes you are talking about?

Mr. HILPERT. The bulk of the shoes that we sell are women's. As a company we sell 40 percent of our product to women. And we, of course, sell to men and children, but 40 percent are women's shoes.

Senator DANFORTH. Gentlemen, thank you very much.

Senator MITCHELL. Mr. Chairman, could I just ask Mr. Hilpert to provide one additional thing?

Senator DANFORTH. Sure.

Senator MITCHELL. In response to your question regarding the effects of the orderly marketing agreements, he talked about price increases during the period when the agreements were in effect and then price stability since then. Would you provide us with the specific facts and also place them in the context of general, in the

economy of price increases and price stability? In other words, the relationship between the price increases and price stability to which you referred and the Consumer Price Index. I think what you will find is that the experience, which you mentioned, that that may have occurred but it may have causes wholly unrelated to the cause which you attributed to it. And that's what I would like to get.

Mr. HILPERT. I will just give you a short answer. Our experience during the OMA period was that our average retail price increased faster than the CPI. Since the OMA's were removed, obviously, we have been flat to down, which is less than the CPI.

We will provide that data to you on a confidential basis.

Senator MITCHELL. I would like to have it industrywide, if we could.

Senator DANFORTH. Thank you, gentlemen.

[Whereupon, at 1:18 p.m., the hearing was concluded.]

[The following communications were made a part of the hearing record:]

MARK O. HATFIELD
OREGON

United States Senate
WASHINGTON, D.C.

May 25, 1984

The Honorable John C. Danforth
Chairman
Subcommittee on International Trade
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Jack:

It is my understanding that your Subcommittee is holding hearings inquiring into the economic health of the domestic footwear industry. In this regard, I would like to share with you my thoughts on the matter.

This industry has filed a Section 201 Import Relief Petition before the International Trade Commission. Claiming that increased importation of non-rubber footwear has inflicted serious injury, the petitioners have requested an investigation by the International Trade Commission and have recommended that the President subsequently impose quantitative restrictions on imports of non-rubber footwear from all sources.

As you may be aware, NIKE, Incorporated, an Oregon corporation, is a major producer and importer of athletic footwear. Just as other segments of the footwear industry provide important economic benefits to local economies, NIKE contributes a great deal to Oregon's economic picture. In that light, I have been examining the domestic and imported footwear industries and have determined that an important differentiation can be made between athletic shoes and other types of footwear.

Indeed, I believe that a strong case can be made that the athletic footwear industry is separate, distinguishable, and distinct from the domestic industry producing non-athletic footwear in virtually every phase of the market, from research and development to retail sales. Moreover, from information provided in the May hearings before the ITC on this matter, substantial data was collected and presented which demonstrates that the athletic footwear industry is in healthy condition, as measured by a variety of economic indices.

A close examination of the separate athletic footwear industry reveals that NIKE, as well as virtually every other athletic footwear manufacturer, carefully designed its production and sourcing strategies so as to maximize comparative production advantages, combining domestic and foreign production in the creation of a truly international industry. By structuring its

research, development, and production in this way, the athletic footwear industry already has achieved the "adjustments" envisioned as the central purpose of Section 201 relief. It is my feeling that quotas or higher tariffs on athletic footwear may well have an injurious effect on the athletic footwear industry without corresponding benefits to the rest of the domestic industry.

In summary, I believe that the athletic footwear industry has demonstrated that it is a separate, identifiable, and international industry which is economically healthy and, as such, presents an inappropriate subject for import relief under Section 201 of the Trade Act of 1974. Whatever the ultimate outcome of the International Trade Commission's findings on the domestic footwear industry as a whole, it would be my hope that the athletic footwear industry will remain separate from other footwear segments and will be excluded from any relief recommended for the domestic footwear industry.

Thank you for your time and consideration in this matter.

Sincerely,

Mark O. Hatfield
United States Senator

MOH/jam

OPENING STATEMENT OF
SENATOR JOHN H. CHAFEE
AT HEARINGS OF THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
MAY 25, 1984

THANK YOU, MR. CHAIRMAN.

THERE IS NO DOUBT THAT THE FOOTWEAR INDUSTRY HAS SUSTAINED SUBSTANTIAL IMPORT PENETRATION.

BUT I WOULD BE SO BOLD TO ASK WHETHER THIS IS, IN AND OF ITSELF, BAD. IT MAY SOUND HERETICAL AND INSENSITIVE, BUT THE FACT IS THAT IMPORTS FILL A VERY IMPORTANT CONSUMER NEED. I DO NOT BELIEVE THAT THE GOOD OF THE AMERICAN PUBLIC, WHICH BOUGHT 491 MILLION PAIRS OF IMPORTED SHOES LAST YEAR, WOULD BE SERVED BY QUOTAS, OR BY AN ASSIGNMENT OF SOME ARBITRARY SHARE OF THE MARKET TO IMPORTS.

THAT DOESN'T MEAN I'M FOR UNEMPLOYMENT, OR FOR PERSONAL HARDSHIP AND SUFFERING. IT MEANS THAT I BELIEVE IT IS WRONG TO TAX AMERICAN CONSUMERS GENERALLY IN ORDER TO PROTECT AN INDUSTRY THAT FUNDAMENTALLY SEEMS TO BE UNCOMPETITIVE INTERNATIONALLY.

THIS SAID, I WOULD POINT OUT THAT WHILE IT IS COMMON TO REFER TO IMPORTS AS HAVING TAKEN 63 PERCENT OF DOMESTIC CONSUMPTION, THIS FIGURE RELATES TO <u>VOLUME</u>. THE <u>VALUE</u> OF

IMPORTS IS ABOUT 44 PERCENT OF THE TOTAL VALUE OF DOMESTIC CONSUMPTION. THIS MEANS THAT THE BULK OF IMPORTS IS IN THE CHEAPER SHOES.

I PARTICULARLY BELIEVE THAT IMPORT CONTROLS ARE WRONG WHEN THE MAJOR COMPANIES IN THE INDUSTRY ARE DOING WELL. A RECENT ARTICLE IN FINANCIAL WORLD TITLED "FANCY FOOTWORK BY THE SHOE INDUSTRY" DESCRIBES AT LENGTH THE CURRENT AND ANTICIPATED SUCCESS OF SHOE COMPANIES. ONE ANALYST IS QUOTED AS SAYING THAT "WE EXPECT SELECT SHOE COMPANIES TO DO VERY WELL. THE PROSPECTS ARE FOR EXCELLENT GROWTH AND EXCELLENT TOTAL RETURN FIGURES." THE BROWN GROUP, THE COMPANY OF OUR FIRST WITNESS, IS DESCRIBED IN GLOWING TERMS. I ASK THAT THIS ARTICLE BE INCLUDED IN THE RECORD.

IT IS HARD TO ARGUE THAT IN FINANCIAL TERMS THE INDUSTRY IS DOING BADLY.

THE RATIO OF NET INCOME BEFORE TAXES TO NET SALES OF 92 U. S. PRODUCERS WAS 7.4 PERCENT IN 1980, 8.8 PERCENT IN 1981, AND 6.1 PERCENT IN 1982. THIS COMPARES TO THE AVERAGE FOR ALL U. S. MANUFACTURING CORPORATIONS OF 7.6 PERCENT, 7.4 PERCENT, AND 5.3 PERCENT. NOT BAD, I'D SAY.

NOW ONE OF THE REASONS FOR THIS GOOD FINANCIAL PERFORMANCE IS THAT THE COMPANIES HAVE DONE WELL AT MARKETING DOMESTIC AND IMPORTED SHOES. THEY THEMSELVES ARE AMONG THE LARGEST IMPORTERS AND RETAILERS OF IMPORTED SHOES. THE IMPORT "PROBLEM," IN A SENSE IS A PROBLEM CREATED BY THE VERY COMPANIES ASKING FOR

IMPORT RELIEF. I DO NOT CONDEMN THEM, I APPLAUD THEM. THEY HAVE RESPONDED TO THE CONSUMER, AND THEY HAVE PROSPERED.

I DO NOT BELIEVE EITHER IN THE CONCEPT OF "BREATHING ROOM." INDUSTRY AFTER INDUSTRY COMES TO US TO ASK FOR "BREATHING ROOM" FROM IMPORT COMPETITION. THE AUTO INDUSTRY, THE STEEL INDUSTRY, THE FOOTWEAR INDUSTRY. TOO OFTEN "BREATHING ROOM" JUST MEANS A CHANCE TO HIKE UP PRICES AND SALARIES. BREATHING ROOM IS TOO OFTEN NOT USED TO GET BREATH BACK BUT TO FURTHER SUFFOCATE.

HERE IS AN ARTICLE FROM Footwear News THAT I FIND FASCINATING. IT SAYS THAT:

> "WHEN THEY SAT DOWN TO DETERMINE THEIR CAPITAL SPENDING PLANS FOR 1984, DOMESTIC SHOE MANUFACTURERS FOLLOWED TWO DIVERGENT PATHS.
>
> "SOME CHOSE TO SPEND MORE THAN THEY DID IN 1983 - AND IN SOME CASES MORE THAN THEY HAD IN A NUMBER OF YEARS - IN ORDER TO BETTER COMPETE WITH IMPORTERS, WHILE OTHERS DECIDED TO SPEND LESS, AS THEY AWAITED THE OUTCOME OF THE DOMESTIC SHOE INDUSTRY'S SECTION 201 PETITION FOR TRADE PROTECTION."

MR. CHAIRMAN, TO ME THIS TELLS THE WHOLE STORY. WHY INVEST IF THE PRESIDENT BAILS US OUT? WHY BOTHER? WE'LL JUST TAKE REFUGE BEHIND OUR NEW TARIFF BARRIERS, AND TO HECK WITH INVESTMENTS IN MODERNIZATION.

LET'S LOOK FOR A MOMENT AT R&D. THIS INDUSTRY MUST BE AMONG THE LOWEST IN SPENDING ON RESEARCH AND DEVELOPMENT. THE INDUSTRY SPENT .6 PERCENT OF ITS SALES ON R&D IN 1981, COMPARED TO ABOUT 2.2 PERCENT FOR ALL MANUFACTURING INDUSTRIES.

THERE IS A MYTH THAT YOU JUST CAN'T AUTOMATE SHOE PRODUCTION. WELL, THAT'S THE SAME MYTH THAT USED TO RULE TEXTILE MANUFACTURING. BUT LOOK WHAT'S HAPPENED THERE. SOMEHOW TECHNOLOGY WON OUT, WHEN A JOINT RESEARCH VENTURE OF LABOR, MANAGEMENT AND GOVERNMENT RESULTED IN THE DESIGN AND SUCCESSFUL OPERATION OF A COMPLEX COMPUTERIZED SEWING SYSTEM THAT, ACCORDING TO PETER BEHR IN THE WASHINGTON POST:

> "CAN FOLD AND SEW PIECES OF LIMP FABRIC TO MAKE SLEEVES, THE BACKS OF SUIT COATS AND VESTS, WITH A SPEED AND PRECISION THAT FEW HUMAN CLOTHING WORKERS CAN MANAGE."

THIS IS WHAT IS CALLED A BREAKTHROUGH TECHNOLOGY. IT WILL PERMIT THE TEXTILE APPAREL INDUSTRY TO LEAPFROG FOREIGN COMPETITION, AND THE UNIONS ARE BANKING ON THAT BECAUSE IT WILL SAVE JOBS.

I SUGGEST THAT IMPORT CONTROLS ARE THE WRONG SOLUTION. I WOULD LIKE TO SUGGEST THAT THIS INDUSTRY FOLLOW THE EXAMPLE OF THE ELECTRONIC INDUSTRY AND THE TEXTILE INDUSTRY AND CREATE A JOINT R&D VENTURE TO FIND WAYS TO MAKE SHOES MORE EFFICIENT BY DEVELOPING TOTALLY NEW TECHNOLOGIES. THEY COULD MAKE USE OF THE BILL THAT HAS PASSED THE HOUSE AND IS PENDING ON THE SENATE CALENDAR THAT REMOVES ANTI-TRUST PROHIBITIONS AGAINST SUCH JOINT EFFORTS.

THE BEST RESULTS FOR THE AMERICAN CONSUMER AND FOR THE INDUSTRY WILL BE FOUND IN THIS APPROACH, NOT IN IMPORT RESTRAINT.

BOB PACKWOOD, OREG., CHAIRMAN
BARRY GOLDWATER, ARIZ.
JOHN C. DANFORTH, MO.
NANCY LANDON KASSEBAUM, KANS.
LARRY PRESSLER, S. DAK.
SLADE GORTON, WASH.
TED STEVENS, ALASKA
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ERNEST F. HOLLINGS, S.C.
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DANIEL K. INOUYE, HAWAII
WENDELL H. FORD, KY.
DONALD W. RIEGLE, JR., MICH.
J. JAMES EXON, NEBR.
HOWELL HEFLIN, ALA.
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WILLIAM M. DIEFENDERFER, CHIEF COUNSEL
RALPH B. EVERETT, MINORITY CHIEF COUNSEL

United States Senate
COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION
WASHINGTON, D.C. 20510

May 24, 1984

The Honorable John C. Danforth
United States Senate
Washington, D.C. 20510

Dear Jack:

On Friday, May 25, the Senate Finance Trade Subcommittee is holding hearings on the domestic footwear industry. I am writing today to ask you to extend a hearty welcome to the representatives of NIKE Corporation, who will be testifying at the hearing.

As you know, NIKE is an Oregon Corporation. NIKE is a valued member of our business community, and an integral part of the Oregon economy. As such, I had hoped to attend the hearing in your Subcommittee. Regrettably, I must be in Oregon on May 25.

Cordially,

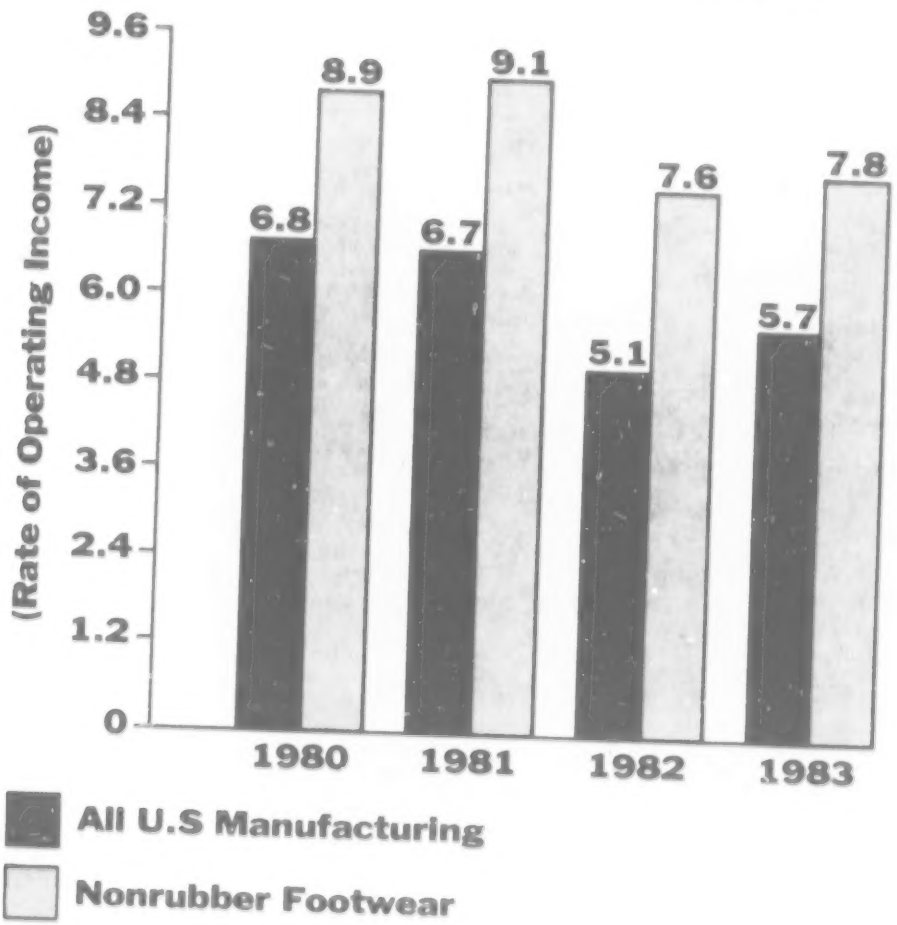
Bob

BOB PACKWOOD

BP/smj

Since 1980, U.S. Shoe Manufacturers Have Been MORE PROFITABLE Than the Average for U.S. Manufacturing as a Whole.

Operating Profits as a Percent of Net Sales



SOURCE: U.S. Department of Commerce and USITC

BILL EMERSON
MEMBER OF CONGRESS
8TH DISTRICT, MISSOURI

HOUSE COMMITTEE ON
AGRICULTURE

HOUSE COMMITTEE ON
INTERIOR AND INSULAR AFFAIRS

Congress of the United States
House of Representatives
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May 23, 1984

The Honorable John C. Danforth, Chairman
Subcommittee on International Trade
Senate Committee on Finance
221 Dirksen Senate Office Building
Washington, D. C.

Dear Jack:

In view of the fact that I will be enroute to Missouri at the time that you will be holding a hearing on the state of the U. S. footwear industry, I have enclosed a statement for your hearings record.

I very much appreciate this opportunity to add my remarks, in support of the nonrubber footwear industry's 201 petition filed with the International Trade Commission, on behalf of the people who reside in the Eighth District, Missouri. As you may know my district has the highest concentration of shoe factories in all of Missouri.

Once again, thank you for the opportunity to support the efforts of my constituents who very much need the jobs that the footwear industry has provided.

With best personal regards,

Sincerely,

Bill Emerson
Member of Congress

BE:tm

98-410 O - 85 - 13

Statement by the Honorable Bill Emerson (R) Eighth District, Missouri
Before the Senate Committee on Finance, Subcommittee on International Trade
May 25, 1984

I come before you today to express my strong and active support for the 201 petition that has been filed with the International Trade Commission on behalf of the nonrubber footwear industry.

In my district, the Eighth Congressional District of Missouri, the economic damage caused by the penetration of imported nonrubber footwear in recent years is one of the most severe single blows we have felt. Since 1978, seven factories have closed and approximately 2,000 workers have lost their jobs. The most recent closing, which occurred in Salem, Missouri, resulted in the loss of approximately 250 jobs in a community that has a labor force of fewer than 2,000 people. I do not think I have to tell you how devastating such a loss can be to a small rural community.

I am perhaps one of Congress' staunchest supporters of a general policy of free trade. Representing one of the nation's most productive agricultural areas, I am well aware of the need to maintain and promote our own access to foreign markets--and equally aware of the risks to that access that can result from import restrictions. Nevertheless, I have watched too many small communities suffer too much at the hands of imported footwear, and have become increasingly convinced that this is an industry that needs--and deserves--temporary protection.

From my observations of the industry nationwide, as well as personal knowledge of the nonrubber footwear manufacturers in the Eighth District, I am confident that the industry has not brought this problem on itself. It has made every effort to compete with foreign imports, and done so despite serious obstacles presented by the overall economic conditions of recent years. In Missouri, as well as across the nation, footwear employees earn wages far below average in comparison to other industries, and considerable resources have been devoted to modernization of facilities and research. Yet, the industry still finds itself unable to cope with the flood of imports--a flood that has reached 70 percent of the U. S. market.

The damage that has been done is so extensive that the industry cannot "get back on its feet", even with the admirable effort it is making to become fully competitive with foreign producers. Thus, I believe that the nonrubber footwear industry's request to the International Trade Commission is a reasonable one. Given five years of protection, the industry will have the opportunity it needs to regain a fair share of the market, and will be able to become fully competitive.

Based on this believe, I have urged the ITC to act favorably on the Nonrubber Footwear Industry 201 Petition, and today I urge my colleagues in the Senate to add their voices of support to this effort. This industry, its employees, and small communities across rural America deserve a chance to regain the ground they have lost to a relentless flood of imports.

STATEMENT BY HONORABLE OLYMPIA J. SNOWE
BEFORE THE SENATE FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE
FRIDAY, MAY 25, 1984

I am pleased to submit to the members of the Senate Finance Subcommittee on International Trade my concerns with the demise of our domestic shoe industry. More shoes are made in my home state of Maine than in any other state in the nation - but the consequences of imports have been shared by all of us. Simply put, the domestic shoe industry is disappearing.

The domestic footwear industry has been battling import penetration for fifteen years. Virtually every other country in the world has stringent trade barriers against footwear imports -- except the United States. In fact, the United States, which imported 215 million pairs of shoes in 1982, is about the only industralized country that has not erected trade barriers to foreign shoe imports. A 1981 Commerce Department study on tariff and trade regulations governing footwear imports revealed that 51 of 53 of our nation's trading partners had import duties. To dateshoe import quotas are maintained by Japan, Canada, Australia, New Zealand, France, and the United Kingdom. Even the countries that are the biggest suppliers of U.S. shoes - Taiwan, South Korea, and Brazil - maintain barriers.

While our industry has made every effort to compete with imports, the effect of foreign restrictions has been crippling. I have visited every shoe factory in my district, and I tell you that the outlook is bleak. I've seen the empty rows of benches and the

idle machines. I've talked with shoe makers and manufacturers alike, and they have impressed upon me their strong concern with their industry's future. And I've received hundreds of letters from Maine shoe workers demanding that the shoe industry simply be allowed to compete fairly in the international marketplace.

All the industry is asking for is relief: straight-forward reprieve from the influx of foreign-made footwear and a chance to compete on equal terms with shoes produced in other countries.

The import relief petition now before the International Trade Commission would grant the industry a five-year grace period from imports. I believe that this request is both reasonable and fair. Since the Orderly Marketing Agreements were prematurely lifted in 1981, import penetration has increased to 70 percent, 2000 shoe jobs have been lost in Maine, and four factories have closed. The toll in personal sacrifice and hardship has been staggering.

Some would suggest that the industry is pursuing protectionist policies - I counter that they are simply seeking fairness. The industry needs more time to develop, refit and make the necessary modifications to its facilities and production capabilities. Frankly, workers in Maine, and the United States, want to compete and can compete if only given a fair opportunity.

I am disappointed that my schedule prohibited my appearance before you today because I would simply state my hope that the petition will be approved so that the shoes worn by the majority of Americans will once again say "Made in the USA".

U.S. Council for an Open World Economy
INCORPORATED
7216 Stafford Road, Alexandria, Virginia 22307
(202) 785-3772

Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Subcommittee on International Trade of the Senate Committee on Finance in hearings on the state of the U.S. footwear industry. May 25, 1984

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

It is unfortunate that the basic motif of government attention to the problems of the U.S. footwear industry -- in Congress, the Executive Branch or the International Trade Commission (ITC) -- involves the question of whether and how footwear imports should be restricted. Except for the Department of Commerce's attempt many years ago at a broader assessment of the industry's real problems and needs (an attempt limited in duration and scope), the question of whether and how to help this industry (or indeed virtually any other industry) has never been studied in the framework of a coherent, comprehensive assessment of the industry's real problems and needs -- looking toward the propriety of a government-aided industry-adjustment strategy, whether or not import restraint is needed and appropriate as a temporary component. Among other things, such a strategy might require restructuring the industry, and should certainly include reassessment of all statutes and regulations materially affecting the industry's ability to adjust to today's economic realities and those that realistically may be anticipated.

Such a strategy (involving appropriate, enforceable commitments by industry and labor as well as government) should be the indispensable framework for any government assistance, particularly where some of the assistance (as in the case of import control) amounts to a subsidy. Yet, instead of studying the advisability and scope of a coherent, comprehensive footwear policy, the only kind of footwear policy being considered is a footwear import-control policy. Specifically, one that would limit nonrubber-footwear imports to 50 percent of the U.S. market for five years. Such legislation (a petition to the ITC for import relief was recently denied) is supposed to buy time for the industry to adjust to new market realities through increased productivity and other measures. Whether or not imports are a major cause or threat of serious injury, the whole exercise of concentrating on the import issue could, if the decision is made to restrict imports, result in action that did not adequately address the needs of the footwear industry or

those of the nation. It would amount to a "pig in a poke", in the sense that government would be making a gamble on the outcome of the commitment made at public expense, without all the significant ingredients for the best policy judgment, including the absence of industry and labor commitments for which they could be held legally accountable.

The inadequacy of government's attention to this issue is reflected in the inadequacy of the ITC's legislative mandate in import-relief proceedings. To find serious import-injury (or the threat thereof) or not to find it, to recommend import control if injury or threat is found or not to recommend it, to recommend adjustment assistance to individual firms, workers or communities as a substitute or supplement for import control or not to recommend it -- these are the only questions the law requires the ITC to address. However, the law does not prevent the Commission from also addressing the possible need for industry-wide remedies other than import control, whether or not serious injury or threat thereof from import competition is found.

If the ITC does not find import injury or threat thereof, the case does not even reach the President, even though (as I have suggested) some action by the President to help the industry may be justified. If the ITC does find import injury or threat thereof, the trade legislation authorizes the President to implement the Commission's recommendations if he agrees with the Commission's finding, or he may substitute his own remedies, or he may reject the injury finding and terminate the whole question of government assistance to the petitioning industry there and then. The legislation does not authorize the President to proceed with an industry-adjustment strategy as the framework for any import restraint he may find necessary; it does not even mention the possibility. But nor does it prevent him from taking such a course. He has an inherent right to take it. In short, whether or not import injury is found, the President should consider whether government action of some kind is needed. Certainly, any import restraint should be part of a coherent adjustment strategy along the lines I have briefly suggested.

If Congress now feels that the problems and needs of the U.S. footwear industry are being neglected by government, it should (aside from the general need to reform the import-relief provisions of the trade legislation along the lines I have suggested) ask the President to institute immediately the kind of footwear investigation I have proposed and to proceed with a coherent footwear-industry adjustment strategy to the extent that government help is needed and appropriate. As I have stated in other presentations to Congress, an innovative ITC -- especially if it is eager (as it should be) to help the President in his decision as to whether and how to help an ailing industry regardless of whether there is a finding of serious injury from imports --

would do more than confine itself to the narrowest interpretation of its legislative mandate. It would make sure that the documentation it developed in carrying out its legislatively decreed responsibilities included the kind of material the President would need for deciding whether and how government should provide assistance to the particular industry whether or not there is a finding of import-related injury. The trade legislation does not require the Commission to be this innovative and helpful, nor has the Commission sought to become so on its own. In the absence of legislation correcting this deficiency, the President himself needs to become innovative in dealing with the problems of ailing industries. The kind of investigation I am here suggesting that Congress ask him to conduct could, besides showing concern with the problems of the footwear industry and the communities that depend on it, become a prototype for better Presidential decision-making with respect to government attention to the problems of U.S. industries in a rapidly changing and increasingly competitive world.

TESTIMONY OF THE ECONOMIC DEVELOPMENT COUNCIL OF NORTHEASTERN PENNSYLVANIA (EDCNP) BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE UNITED STATES SENATE COMMITTEE ON FINANCE ON THE STATE OF THE U.S. FOOTWEAR INDUSTRY IN CONNECTION WITH THE HEARING HELD ON FRIDAY, MAY 25, 1984 IN ROOM SD-215 OF THE DIRKSEN SENATE OFFICE BUILDING

Introduction

My name is Howard J. Grossman. I am Executive Director of the Economic Development Council of Northeastern Pennsylvania (EDCNP).

The EDCNP is a private non-profit research, planning, and development organization composed of a 300 member Board of Directors representing a wide spectrum of interest groups in Northeastern Pennsylvania. The Council serves the private and public agencies in the seven counties of Northeastern Pennsylvania which comprise the Commonwealth's Uniform Planning Region #3 - Carbon, Lackawanna, Luzerne, Monroe, Pike, Schuylkill and Wayne Counties.

Among the many functions of the Council are the following:

The Council is the designated local development district under the Appalachian Regional Development Program and the economic development district under the federal programs of the Economic Development Administration.

Among its other roles, the Council is the designated regional clearinghouse for the Intergovernmental Review Process (IRP) wherein the Council reviews most federally-aided applications submitted by applicant agencies in the above mentioned seven county region. EDCNP is generally involved in providing technical assistance to the 267 local units of government in our seven county area. Furthermore, the Council administers the "A Place To Grow: The Pocono Northeast" Image Program, as well as providing insight into many State and federal plans.

In addition to these activities, the Council also provides technical assistance to various chambers of commerce and non-profit industrial development corporations to help diversify the region's economic base. We supply research and statistical information on development opportunities in the region and how a public and private sector partnership can function in our region so that economic development and job opportunities can take place.

Footwear Industry in Northeastern Pennsylvania

Over the last decades, the extent of the footwear industry in the seven counties of Northeastern Pennsylvania has substantially decreased from a significant industry sector to one which now bears little resemblance to the past. At one time, Luzerne County, which currently has a population of 343,079 had more shoes produced within its boundaries than any other county in the nation. Today, throughout Northeastern Pennsylvania, there are only 13 firms producing footwear. While the industry has decreased substantially, the remaining industries are still important to the growth and economic future of Northeastern Pennsylvania. Most of the studies and surveys which have been accomplished in the past and personal communications with representatives of the footwear industry reveal that the industry has been adversely impacted by the importation of foreign footwear products into the United States. The competitive nature of the industry has caused many of the former footwear plants to close, thus losing significant numbers of jobs in the region.

In the past, the Economic Development Council of Northeastern Pennsylvania has been deeply involved in encouraging programs of assistance to the footwear industry and establishing a base by which those remaining manufacturing facilities can compete with the importation of foreign products. We recognize that this problem is one of national scope and deserves a national policy which will help stabilize the manufacture of footwear in the nation, and therefore, have a positive impact on the economic stability of Northeastern Pennsylvania.

Economic Growth in Northeastern Pennsylvania

It should be noted that the current unemployment rate in the Northeast Pennsylvania Standard Metropolitan Statistical Area is 11.7 percent. This double digit unemployment rate has persisted for a substantial length of time in the region even though jobs have increased through the expansion of existing businesses and industries. The Economic Development Council wishes to support the need for a national policy which will encourage not only the United States footwear industry to expand and prosper, but other industries which have been impacted by the importation of foreign products. Our region is strong in the needle trades with twenty-nine (29) percent of our manufacturing employment force working in this industry sector. It is a cyclical industry which, in some years, has excellent production and in other years, faces a depressed economy and thus significant job layoffs. Since our industry sector has been recycled over the last several decades and is no longer dependent upon a single industry such as anthracite coal which formerly dominated the economic scene in the region, we are now exploring many new opportunities to diversify our economic base. Much has occurred in the last several decades, but much more remains to be accomplished.

We urge the Subcommittee on International Trade to develop some new concepts by which the footwear industry can be stabilized and new techniques enacted to permit fair competition to take place between footwear produced in the United States, and therefore, Northeastern Pennsylvania and footwear produced by other countries and imported into the United States.

Recommended Actions

In our belief that the footwear industry deserves to be supported in this country, and that our efforts to secure economic stability cannot rest as long as any of our industry sectors are threatened by unfair competition, we offer the following recommendations:

1. New incentive programs for small businesses which predominate the footwear industry in our region should have access to additional funding resources through low-interest loans, and, in some cases, grants in order to modernize equipment and utilize new technology as a basis for economic stability. The footwear industry can take advantage of these types of low-interest loans if the federal government provides some incentives along with various state governments where footwear is a significant industry sector.

2. Programs such as the Ben Franklin Partnership in the Commonwealth of Pennsylvania which offer new opportunities for utilization of technology to upgrade and modernize older ways of manufacturing through the use of computer assisted design and computer assisted manufacturing (CAD/CAM) should be encouraged through federal initiatives and incentives. The Ben Franklin Program has proven to be extremely successful in the region and is a technique by which the federal government can expand its abilities to support the means by which the footwear industry can survive and be competitive with the importation of foreign footwear products.

3. Since the footwear industry is a labor intensive industry at present, more emphasis should be placed to stabilize labor/management relations in this industry sector. This is also true of other labor intensive industries, and, therefore the program to establish a labor/management cooperative focus currently administered by the Federal Mediation and Conciliation Service should be expanded. In Northeastern Pennsylvania, we have seen this program to be an effective device for the establishment of in-plant labor management committees, and the funds have been utilized to establish area labor/management committees as well. We look upon these resources as an important tool for economic growth in a general sense, but also as an application for the footwear industry in Northeastern Pennsylvania.

4. We believe a major conference should be undertaken bringing together the large and small manufacturers of footwear in the United States, perhaps preceded by regional conferences first in which suggestions are made as to what steps can be taken to improve this industry sector and compete more effectively with the importation of foreign footwear.

Summary

We believe that the footwear industry can compete with products produced in foreign countries if appropriate steps are taken to encourage the industry to expand and prosper. The Economic Development Council appreciates the opportunity of submitting this testimony to the Subcommittee on International Trade, and would be happy to follow up with additional suggestions and any comments that the Subcommittee desires.

Fancy footwork by the shoe industry

Protesting vigorously against foreign competition, the group has still managed to do quite well

by Marci Baker

The country's 300 footwear manufacturers, led by the Footwear Industries of America, staged a "really big shoe" for Congress late in January. Just as the FIA filed a petition with the International Trade Commission, asking for global quotas on shoe imports, Capitol Hill was being flooded with shoes, amputated at the toes and unaccompanied by mates. The shoes were meant to illustrate what was left of the domestic market after imports took their share.

While the shoemakers might be faulted for theatrics in their lobbying attempt, they cannot be cited for exaggeration: 64% of the domestic shoe market belongs to imports. As First Boston's Margaret Gilliam puts it: "No industry in America has been decimated by imports like the shoe industry." Since mid-1981, when import restrictions on Taiwan and South Korea were lifted, foreign manufacturers have increased their market share 15%, while 50 factories in the United States have shut down, leaving 25,000 employees without jobs.

With the industry ailing over imports, you would think investors would do well to avoid shoe companies. The fact is, however, that many companies have maintained strong earnings records in the face of such adversity. Because retail shoe sales, consumer spending and unemployment rates are working in their favor, analysts believe these companies will continue to be big gainers this year and over the long term. Says Drexel Burnham Lambert's Bruce Grier, "We expect select shoe companies to do very well. The prospects are for excellent growth and excellent total return figures."

What's sustained these earnings records? For one, smart management. "The successful companies are those where management has decided they must be marketing companies," says Gilliam. "They have been prepared to do whatever they need to make shoes competitive." To do that, analysts note, companies now are relying more on overseas products and are cutting production costs at home. Moreover, as the shoe industry has matured, many have wisely diversified into complementary businesses, such as apparel retailing and manufacturing, for greater growth and better returns on equity.

For many companies, like the Brown Group, for instance, specialty retailing holds the greatest growth potential. The long-term objective of the St. Louis company, which has produced 28 consecutive quarterly improvements in earnings per share, has been to build up its apparel, linen and recreational products lines in order to reduce footwear as a portion of its total business. Even so, about 70% of Brown's business remains in footwear manufacturing and retailing, while at other companies, shoes have already begun to play a much smaller role.

For example, at Interco, which makes and retails Florsheim and other branded shoes, almost 80% of sales are drawn from general merchandise retailing and apparel and furniture manufacturing. At U.S. Shoe, whose domestic shoe brands include Joyce and Red Cross, 50% of sales come from its men's and women's apparel and off-price branded goods stores. Melville Corp., moreover, recently opted to sell virtually all of its manufacturing plants in favor of focusing on specialty retailing. Its Meldisco division, which operates leased shoe departments in K mart stores, and its Thom McAn stores, continue to make up almost 40% of total sales, however.

Despite imports, shoe earnings are up.

METAMORPHOSIS

Although footwear is being deemphasized among diversified companies, it is not being forgotten. These shoe divisions, in tandem with companies that haven't strayed from the shoe business, have undergone transformations as well. Footwear retailing is garnering greater attention since manufacturing has to contend both with imports and a relatively flat domestic consumption rate of about 800 million pairs of nonrubber shoes annually. Shoe retail sales, on the other hand, have increased at an 8.8% annual rate for the last 10 years.

Wolverine Worldwide has expanded its retail outlets by 150 stores in this country and in West Germany during the last year and a half. The expansion was part of an overall program to reduce the impact of its Hush Puppies division on total business. The division has experienced soft sales for the last couple of years largely because of the increase in imports and the movement of consumers away from casual shoes. "We'd like to see Hush Puppies represent 30% to 35% of sales in order to have less dependence there," says Ernest Tonsmeier, vice president, finance. The division makes up 40% of total sales.

Of Wolverine's 150 new stores, 40 are off-price shoe centers. In fact, off-price footwear retailing has become a staple among shoe companies as part of the overall market trend toward discount stores. "There appears to be room for growth in the off-price shoe stores because shoe companies were late coming into the off-price game," explains Prescott, Ball & Turben's Edward Johnson. However, one analyst notes that there are entry barriers to this market. For one, there is the need to have established long-term relationships with wholesale and retail suppliers. Long lead times are necessary to order and manufacture merchandise,

since many of the brand names are produced overseas. In addition, companies must maintain high working capital, since the shoes are slow moving merchandise and are often carried over another season.

In addition to beefing up retailing, most shoe companies have attempted to broaden their own product lines beyond moderately priced shoes, the mainstay of domestic manufacturing. The biggest draw has been to higher-priced designer or fashion shoes, which have better profit potential and greater demand than the middle-of-the-road brands. Amfesco, which manufactures and sells low-priced branded athletic and casual footwear, last year established a licensing agreement to manufacture Charles Jourdan Casuals, its first entry into the higher-priced branded-footwear markets. Others choose to import rather than produce designer shoes. U.S. Shoe, an early comer to this market, does both with its more expensive lines, including Garolini and Capezio, outpacing the sales of its traditional, moderately priced lines.

U.S. Shoe manufacturers are turning the overseas competitors to their advantage to decrease the cost of domestic production as well. Virtually all manufacturers are getting their materials, such as shoe uppers, outside the country. Moreover, some have established manufacturing operations overseas. Amfesco has remained relatively immune to imports largely because the company makes its shoes in the Dominican Republic and Puerto Rico, according to Joseph Kantrowitz, senior vice president of finance. Hourly wages are less than $1 as against the $6.65 average hourly rate for the U.S. shoe industry's 220,000 workers. Amfesco, which retails most of its shoes between $6 and $14, also gets favorable Federal tax treatment since much of the company's manufacturing and sales volume stems from Puerto Rico.

In addition, shoe companies are reducing the labor-intensive nature of manufacturing, where they have been most vulnerable to imports. Increased capital spending to automate plants has so far reduced the cost of labor in footwear manufacturing from 30% to 22%. At Brown, one of the more aggressive in this area, 40% of capital spending goes for automation equipment, including computerized design systems and robotics. Accordingly, "while Brown's wage costs go up 7% a year, the cost for the labor content of the shoes increases only 2%," says A.G. Edwards' analyst David Garino.

Shoes now account for a noticeably smaller slice of industry profits.

Many in the industry have not had the resources to automate as aggressively as Brown. FIA's latest effort to seek global quotas on imports for a five-year period, if successful, could give these companies time to adequately retool their manufacturing along competitive lines, says Ken Crerar, governmental affairs specialist with the FIA. "We're not looking for a handout from the Government. We're only looking for our fair share of our own market."

The Amalgamated Clothing and Textile Workers and the United Food and Commercial Workers are backing the appeal for relief, as is the domestic tanning industry. The key question is whether the Reagan Administration will back down in this instance on its stand about maintaining free markets, especially since the decision will be handed down near election time. "Now that imports have gotten this bad," says Wolverine's Tonsmeier, "I don't know whether Reagan can maintain his stand. With only 200,000 people employed in the industry, one thing to worry about is that there aren't enough people to make a difference."

A GOOD BET

Import quotas or no, analysts generally believe that selected shoe companies offer attractive buys. "Shoe stocks look better now than they did last June when they hit their peak prices," says Prescott, Ball's Johnson. Then and in December the stocks declined in a general move away from consumer stocks into industrials. If inflation remains low, Johnson thinks there will be a growing "perception among investors that retail stocks, [including shoes] have more predictable earnings growth." That, along with the fact that many shoe stocks are selling at low p/e ratios on estimated 1984 earnings, will prompt investors to buy.

Overall, the shoe industry is best suited for investors looking for longer-term commitment as well as strong, stable earnings growth and high yields. But when deciding what stock to play, investors, say most analysts, should take a serious look at management as well as company balance sheets. "In a relatively mature market, you can only go with companies where management is strong," asserts First Boston's Gilliam.

One such company is U.S. Shoe, which analysts think will be among the best performers in 1984 and over the long term. They like the company not only for its overall earnings strength but because its management has proved resourceful in coming up with new business ideas that work. U.S. Shoe, for example, was among the first to tap consumer interest in designer shoes by establishing an import arm, says Fred Kopf of Moseley, Hallgarten, Estabrook & Weeden. What's currently sparking excitement is Front Row, a string of upscale off-price retail stores that some analysts are touting as the next generation of off-price retailing. "People used to say the company was lucky," Kopf says of U.S. Shoe. "I used to feel a little like that too. Now I think the people there are just smart."

Brown Group also gets high marks from analysts for overall strength. A

standout performer during 1982, Brown "exemplifies the total return company," says Drexel's Grier. In fact, he believes Brown may well be "one of the best performing stocks in 1984." The investor, he says, can rely on a 15% minimum earnings growth and respectable dividend increases of around 4.2% to 4.3% each year.

Although Brown has been expanding its footwear and specialty retailing, its mainstay is still in moderate-priced fashion footwear for women, most notably Naturalizer and Air Step. But the company just made its entry into the higher-priced women's shoe market with the introduction of an Italian import called the "N" collection, which retails for $60 to $80, says A.G. Edwards' Garino. He also notes that the company's two-year-old Famous Footwear chain of off-price shoe stores has had excellent sales and that, depending on space availability, up to 70 stores could be added to the current base of 130 this year. Based on the strength of this division and others, Grier expects earnings per share to climb to $3.85 this year versus $3.20 for fiscal 1983. An additional attraction to the stock right now is that it's been selling at about 10% market discount.

Grier also thinks Melville, which suffered last year from the falloff of its Marshall's off-price stores, is clearly an opportunity from an investment standpoint. "The dark cloud of concern with Marshall's has been lifted," he says. "Its short sales trend reversed itself significantly in December, and the stock looks better.

Grier expects the company's Meldisco division to benefit from the lower unemployment rates among middle- to lower-income consumers. Moreover, Thom McAn, another Melville division where sales have been off, could get a lift from the expected upswing in men's shoe sales, which tend to turn up late in a recovery. Given these factors, Grier says "it is conceivable that the company will have a much stronger earnings gain in 1984 than in 1983." For the latter, earnings per share increased 20% to $3.30.

Not all companies have looked for strides in earnings growth through diversified business lines as U.S. Shoe, Brown and Melville have. Caressa, which has regained its footing after several ill-fated expansion attempts, is doing so through its higher-priced women's shoe business. The Miami company, which currently has $40 million in cash and no outstanding debt, keeps capital costs down by having its shoes produced primarily in Spain by independent factories (it does have 50% to 51% stakes in three foreign factories, however). The strength of the dollar against the peso has played a role in Caressa's fiscal 1983 earnings jump of 71.7% on a sales increase of 7.2%.

What's giving the company an earnings boost as well is its foray into the moderate-priced women's shoe market with its Brazilian-made S.R.O. line. "A year and a half ago, Caressa wasn't moving 800 pairs a month. Now its moving closer to 70,000," says Raymond, James & Associates' Fred Fair. With this kind of momentum, the $35 to $45 all-leather shoe line should bring in $8 million in sales this year, estimates Merrill Lynch's Russell Mosteller, adding, "They have a big opportunity to develop some market share with these shoes."

Accordingly, Mosteller and Fair are banking on aggressive growth for Caressa for the next few years. Indeed, first-quarter net profits were up 96% on a 39% increase in sales. In addition, Fair expects to see a similar profit increase next quarter as well. The analysts also project minimum 20% increases in earnings per share for the next few years. Caressa's stock outpaced the shoe industry as well as the market, ending the year at about 25, up 150%.

LOOK TO DEMOGRAPHICS

Caressa and other makers of women's shoes should get a sales lift from the key fashion trend today—dressing up. Moreover, demographics are currently working in their favor. The most rapidly expanding age group for the next several years will be the 25- to 45-year-olds, where there is a large concentration of working women and where many shoe companies target their products.

Companies like Stride Rite, one of the largest manufacturers of children's shoes, should be getting a boost from another demographic trend: the mini baby boom. But steady growth in the company's children's shoe division is only a small reason for the more than 15% profit climb that analysts are projecting for this year. The company, analysts say, has transformed Keds, its 1979 acquisition from Uniroyal, by shifting production overseas and cutting out marginal shoe lines. In addition, Sperry Top Sider continues to thrive, and a stepped-up advertising campaign designed to garner more market shares for its athletic shoe, Pro-Keds, should pay off in earnings gains as well.

The upcoming Olympics should provide a kick for the athletic shoe market as a whole, analysts say. One analyst says the athletic shoe business was the only segment to show a decline in 1983 earnings and sales. Among the problems contributing to the decline is the slowing in the consumption rate, which has led to increased inventory.

Indeed, inventory is making some analysts skittish over Nike, although they continue to recommend the stock. Nike, which reported a decline in second-quarter (ended Nov. 30) sales and earnings due to slow immediate shipments, has been sitting on more than $200 million in inventory. "I'm very cool on Nike, in fact cold," asserts First Boston's Gilliam. Montgomery Securities' Dennis Ross, however, believes that a pickup in future spring and summer orders will lighten the load

A Step Ahead of the Market?

	52-Week Price Range	Recent Price	12-Month Trailing EPS	P/E
Amfesco	26¾ - 15¾	17¾	$2.17	8.2
Barry (R.G.)	7¾ - 4⅜	5⅜	(0.14)	—
Brown Group	39⅛ - 25½	29⅜	3.20	9.3
Chelsea Indus.	22⅜ - 14¼	17⅜	2.23	7.9
Compo Indus.	11 - 5⅜	8⅛	0.08	110.9
Edison Bros. Stores	46¾ - 25¾	42¼	3.59	11.8
Interco Inc.	85 - 58⅛	65	5.73	6.1
Melville Corp.	47⅜ - 30⅜	34	2.92	11.6
Morse Shoe Inc.	39¾ - 15⅜	28⅜	1.66	17.3
Nike Inc.	23¾ - 14⅛	14½	1.55	9.4
SCOA Indus.	33½ - 21¼	21½	2.00	10.8
Sheer Shoe	14¼ - 5⅛	12	1.10	10.9
Stride Rite Corp.	43⅛ - 17¼	22½	2.38	9.5
Suave Shoe Corp.	12⅜ - 7⅛	8½	0.82	10.4
U.S. Shoe Corp.	49 - 24⅜	33⅜	3.22	10.4
Wolverine World Wide	29¼ - 14⅜	15½	1.67	9.3

considerably. On the positive side he notes that Nike's sportswear apparel business looks encouraging, as do its international endeavors to sell athletic shoes overseas. Although Japanese sales have tapered off, Nike's European operation is turning into the black. "I would hope [the latter] would contribute somewhere in the neighborhood of 5% to 10% of earnings this year," Ross predicts. He expects earnings per share to hit $1.75 in fiscal 1984 ended May, compared to $1.53 for last year. Long term, the analyst expects a 15% growth rate in earnings.

Wolverine World Wide, which was expected to report a 40¢ to 50¢ earnings decline for 1983 ended December, should pick up its heels by springtime as well, says Prescott, Ball & Turben's Elliott Schlang. The company has restyled its Hush Puppies line to plug the 5% annual falloff in new orders that the division has been experiencing. Its expansion into footwear retailing in Germany should be less costly this year since it will open fewer stores on a larger, income-producing base of 70 outlets. In addition, the Wolverine glove division has been streamlined in an effort to make money on somewhat smaller sales levels. Accordingly, Schlang has recommended Wolverine as a turnaround situation for more speculative investors, although he emphasizes that earnings won't pick up until this spring.

Should all go well, Schlang says the company this year could generate "$2 in earnings per share up to $2.50 on the dreamy side on revenues of $420 million." That compares to an estimated $1.50 for 1983 on sales of $380 million. He added that the company's shares, recently selling between 15 and 16, could sell at up to eight to 10 times earnings this year, providing a 25% appreciation potential within the space of a year.

The problem with shoes is that a mature industry plagued by imports lacks the glamour of more youthful industries like high technology. As such, it is difficult to inspire investor interest. But a number of companies, obviously, demonstrated agility in meeting the competition and thus offer high yield, strong growth potential and total returns in the 20% range. "When you consider that Brown has performed in this vein for the last five years, that says something," notes Drexel's Grier. "On a long-term scheme, investors who can get that kind of return are few and far between." ■

FINANCIAL WORLD, February 22-March 6, 1984